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August 1982

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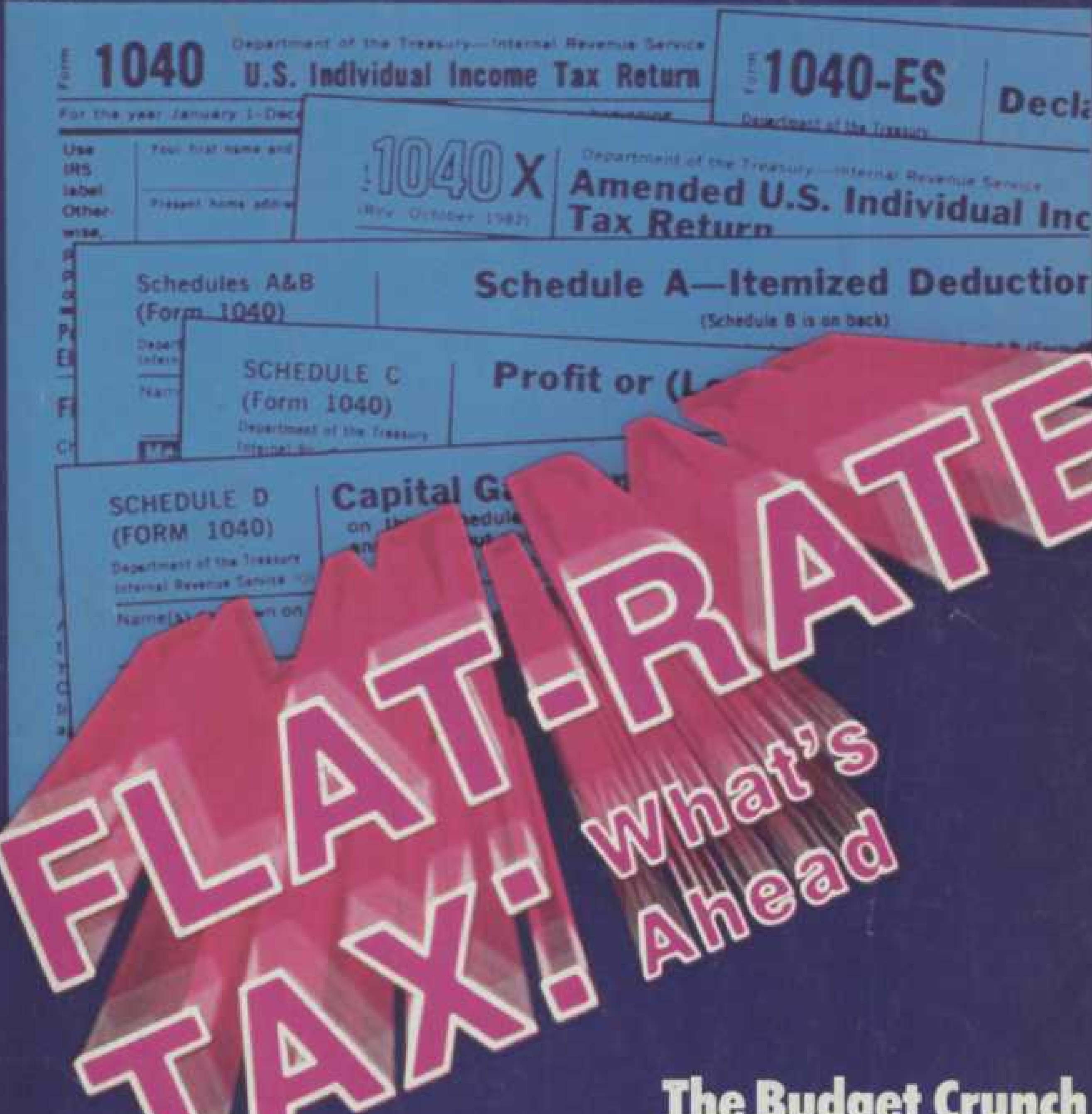

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WASHINGTON LETTER

▶ CRITICAL PERIOD for Republican candidates in tight congressional races could begin just after Labor Day. Whether economic recovery is taking hold should be clear by early fall. It has been assumed from outset of 1982 campaign that pre-election upturn would benefit GOP. Democrats have been pounding theme that Reagan economic program has failed, and they are going all-out to make this election a test of public confidence in it. Good question: Who will benefit if upturn is sluggish?

▶ REPUBLICANS won't be looking for full-scale boom by Labor Day--unlikely in any event--but for signs of long-term recovery. Most important, they hope for decline in interest rates and hike in retail sales. Interest-rate breakthrough is necessary prelude to upturn in housing, autos and major appliances, as well as to all businesses seeking capital funds for inventory or expansion. Improved retail sales would translate quickly into increased production because many sellers are low on inventory.

▶ RECENT TAX ACTIONS within Congress had makings of clash between House and Senate over constitutional authority, but those whose turf was invaded did not press point. Constitution says tax bills must originate in House, which framers considered closer to people. But Senate took lead last month by originating broad tax measure designed to raise nearly $100 billion over next three years to moderate anticipated federal deficits. House, its constitutional prerogatives notwithstanding, was quite willing to let Republican-controlled Senate get out in front on boosting taxes.

▶ AFTER VOTING WITH FANFARE for budget restraint, Congress frequently begins quiet maneuvering to restore cut funds. To help end this game, U.S. Chamber of Commerce has set up tight tracking system on appropriations process. It starts at subcommittee level. Chamber specialists on specific areas of government will monitor developments in their respective areas, and their findings will be coordinated. This input will enable Chamber to spot budget-busting moves early in cycle, in time for its members to communicate with congressmen who are in best position to restrain spending bills.

▶ 'TIS THE SEASON for optimistic projections of date for congressional adjournment. First target--already looking doubtful--was October 2. But lots of important legislation needs action. Mass of detail must be cleaned up for tax and budget matters. After that, there's balanced-budget constitutional amendment, revision of Clean Air Act, establishing federal nuclear waste disposal procedures and more. Outlook? Lame ducks may be sitting in November.

▶ SUPREME COURT next term will take up long-standing dispute dealing with fundamental concept in regulatory reform efforts: congressional veto. With increasing frequency recently, Congress has given itself authority to block proposed actions of regulatory agencies. Lawmakers asserted this power in response to complaints that regulators' actions too often exceed intent of Congress. Recent Presidents have opposed legislative veto concept on ground that it conflicts with separation of powers. White House argues that by use of veto, legislative branch is try-

ing to dictate actions of executive branch agencies in manner that short-circuits normal constitutional path for legislation. Now, third branch of federal tree--judiciary--will try to resolve dispute.

▶ STRAW IN THE WIND? Federal Trade Commission Chairman James Miller, speaking only for himself, told congressional subcommittee that he favors ending U.S. Postal Service monopoly on first-class mail. So did top Reagan communications adviser Bernard Wunder, assistant Commerce secretary for communications. Could they be testing reaction to initiative under consideration as part of new Reagan domestic package?

▶ IS INDEPENDENCE of Federal Reserve System--manager of nation's money supply--in danger? Probably not. Level of grumbling about Fed has increased in inverse proportion to depth of recession, as usual. Potshots are coming from liberals, conservatives and even high-level members of Reagan administration. But that's merely evidence that Fed is serving one of its most important secondary roles: political lightning rod. Congress can end central bank's independence any time it chooses. If it did, however, more of blame for economic problems would fall directly on legislators.

▶ MORE CHANGES COMING for television industry, which has seen plenty already. Federal Communications Commission has proposed to drop its ban on ownership of cable TV systems by TV networks. FCC Chairman Mark Fowler also promises to review other ownership limits imposed on broadcasting industry, such as rule forbidding possession of more than five VHF TV stations. Commission recently lifted restrictions on pay TV and also opened way for direct satellite-to-home TV transmission.

▶ CHANGES COMING for FCC and ICC, too. Senate Commerce Committee has approved some reductions in force at top level of two regulatory agencies. Federal Communications Commission would lose two commissioners, going from present complement of seven to five. Interstate Commerce Commission would shrink from 11 to five. However, five of its seats are currently vacant. Senate committee slipped changes into budget reconciliation legislation. Capitol sources say they have good chance of becoming law.

▶ MAXIMUM OSHA FINES are $1,000 for first citation for serious violation and $10,000 for repeat violation. But definition of repeat violation has varied among local and regional offices of Occupational Safety and Health Administration. No more, says agency head Thorne Auchter. New policy--applicable nationwide--defines repeat violation as violation of same standard, at same plant, within three years of initial citation. For contractors and others without fixed plant sites, repeat violations must occur within same portion of state as original.

▶ SECRETARY OF STATE George Shultz embarks on his new job with warm praise from international business community. Appointment of Secretary with strong background in international economic policy is welcome break from tradition, notes Michael Samuels, vice president, international, U.S. Chamber. "International economic policy has been the stepchild of domestic economic policy or of general foreign policy," Samuels says. He predicts that Shultz will bring new dimension to critical cabinet post because "he understands the real economic world." Shultz was formerly president of Bechtel Corporation, a worldwide construction firm.

▶ WRITE YOUR SEC. Officials of Securities and Exchange Commission fret that they seldom get any comments on their reform proposals from those who are likely to be most directly affected. They are searching for ways to get more input from financial and business people. They already get plenty of input from securities lawyers and accountants, says Chairman John Shad.

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Clean Air Not an Issue

In your article, "Why Business Wants the Clean Air Act Changed" [June], Rep. John D. Dingell (D-Mich.) is shown speaking to steelworkers and, according to the caption, endorsing the industry-backed amendments to the Clean Air Act.

Dingell is a strong supporter of H.R. 5252 and is a constant spokesman for its provisions. However, on that occasion no reference to the Clean Air Act was made. Although the group was indeed steelworkers, it consisted of members and friends of Local Union 2659, McLouth Steel, who marched in Washington in a demonstration against the announced shutdown of that facility. It is important to emphasize that the air pollution control obligations for that company were not in any way a factor in the pending bankruptcy procedures. Hence, the caption "Unemployment among blue-collar workers can be eased" is not an appropriate conclusion relative to the proposed changes contemplated by H.R. 5252 as they would apply to McLouth Steel.

JOHN J. SHEEHAN
Legislative Director
United Steelworkers of America
Washington, D.C.

Editor's note: Though we erred in using this particular photo to illustrate the point, the caption accurately reflects Dingell's position on the Clean Air Act amendments as they apply to job opportunities.

Where to draw the line

In his June column, "Common Sense and Censorship," James J. Kilpatrick states, "It is possible to grow into literate adulthood without having read *Huckleberry Finn.*"

Of course it is possible, but is it desirable? It is possible to grow into literate adulthood without having read Shakespeare, Melville, Hawthorne, Hemingway, Fitzgerald or even the Bible. The question is who draws the line and where.

It seems to me that when one work is deemed expendable, it becomes easy to draw a line that extends the generalization to all works. If *Huckleberry Finn* offends blacks, we can observe that *Othello* might do likewise, that *The Scarlet Letter* offends Protestants and that *Moby Dick* offends Catholics. Do we ban Hemingway because we respect the sensitivities of environmentalists and Fitzgerald because of his depiction of the idle rich?

The issue of censorship should be discussed in terms of what constitutes the best education for our children.

ROBERT J. LUPO
Guaranty Federal Savings & Loan Association
Glenview, Ill.

Right game, wrong position

I was greatly amused to find Dick Lynch, a former New York Giants football player, identified as a linebacker in the excerpt from Matthew J. Culligan's book, *Getting Back to the Basics of Selling*, in the April issue. Dick Lynch, who was a marvelously aggressive and exciting player, was a cornerback, not a linebacker.

HAROLD MURAM
Pittsburgh, Pa.

IRAs and inflation

The young lady who will be a millionaire at age 65 ["IRAs Are Off to a Running Start," June] by investing only $3,500 now at a guaranteed rate of 14 percent is indeed fortunate.

She is also fortunate to have many options open to her. She could retire at age 45 and receive as much as $9,000 a year from Social Security if she were collecting at the highest level of payment.

But millions of Americans will never be rich even though they are depositing enough money in Social Security to make them millionaires.

For example: If a person earns $15,000 a year, his Social Security tax is $1,050 a year. If that amount were deposited each year for only seven years at 14 percent interest, and if it remained at that interest rate, he would be a millionaire sooner than the young woman in the article.

Furthermore, after only 20 years he could draw almost $10,000 a year—instead of having to wait 40 years to obtain Social Security. If he wanted to

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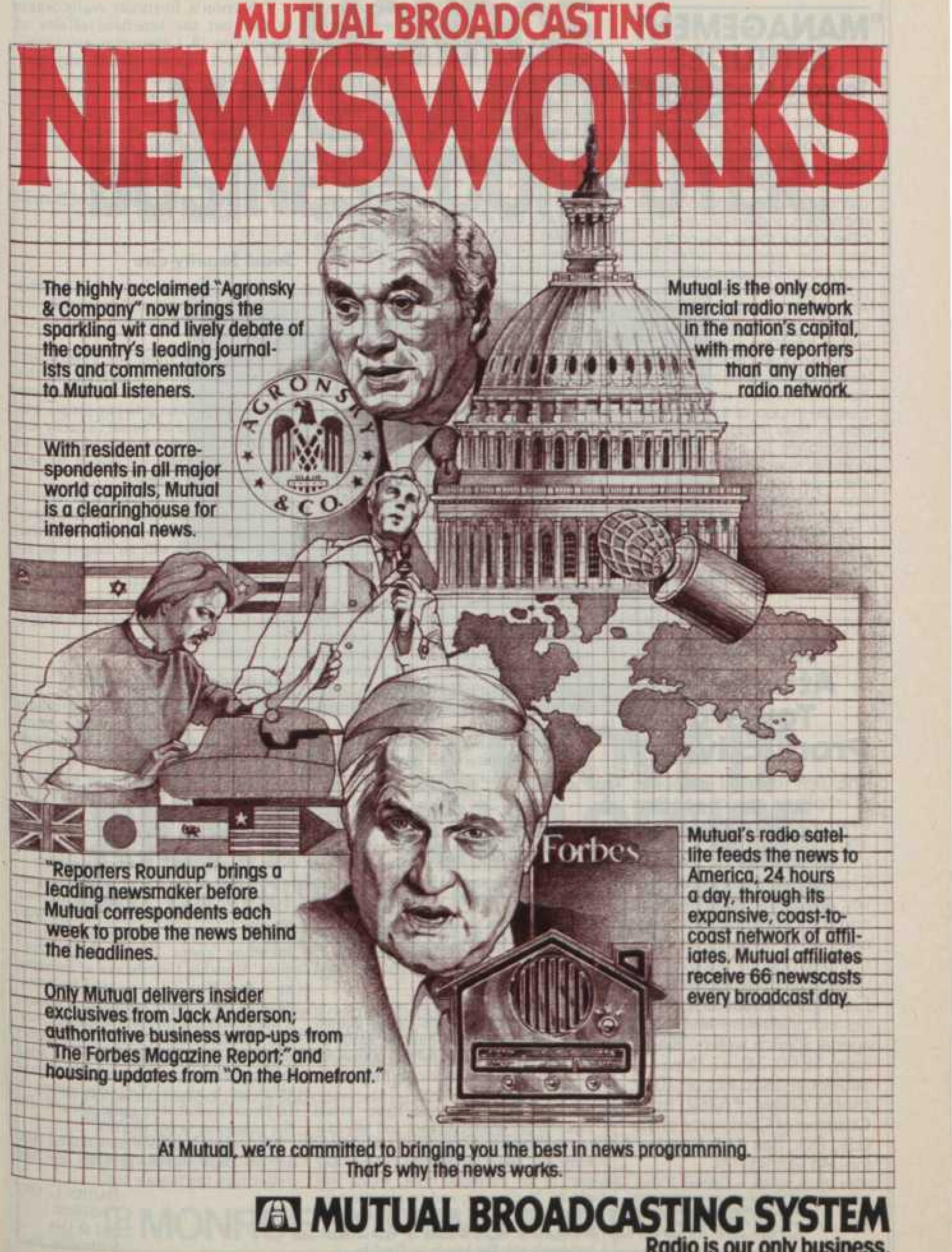
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wait approximately 33 years to start taking his interest, he would get $50,000 a year even though he paid the equivalent of the Social Security tax for only seven years.

Of course, if he deposited the $1,050 *each* year (as he does for Social Security), then he could get his $10,000 a year in only 18 years, and if he kept up his payments for approximately 37 years, he would be more than a millionaire.

If you included the employer's matching tax, the employe could draw his $10,000 a year in only about 13 years instead of 40. Or he could be worth $1 million in only 32 years.

That is why the system has been labeled the "Social Security fraud."

JOHN M. KLOCK
St. Clair Shores, Mich.

The Individual Retirement Account is one of the most creative devices for increasing savings and helping Americans provide for the future.

It is important, however, not to minimize the negative effects of inflation. Inflation is not an uncontrollable occurrence. Those who benefit from inflation and the paying back of hard-earned dollars with cheap dollars have much to do with helping it along. We should be vigilant against any action that would produce inflation.

Manipulation of the money supply is not the way to keep inflation down. The best way is through better management—more efficient use of manpower, equipment and capital. All Americans must see to it that what they save today will truly be worth in the future what they believe it will be.

WILLIAM J. ANTON
Architectural Aluminum Manufacturers Association
Chicago, Ill.

I wholly subscribe to IRAs' benefits to individuals and to the nation. The one aspect that I have yet to see addressed is the downstream inflationary impact of this accumulating disposable wealth.

ERIC S. FISK
Fisk Alloy Wire
Hawthorne, N.J.

The cost of tax cuts

The June Washington Letter quoted Alvin Rabushka and Pauline Ryan as saying, "California finds that taxpayers got $30 billion in tax cuts without a decline in public services."

I wish Rabushka and Ryan would come to my school district and tell that to high school students whose classes were cut from six to five periods per day; to my custodial crew, which was cut by 25 percent; and to parents who want a new school so that their children won't have to be bused 10 or 12 miles, but can't ask for bonds to fund it.

If NATION'S BUSINESS really wants to find out the beneficial effects of Proposition 13, I encourage you to talk with school superintendents, city managers and county administrators.

In my opinion, the only government services not hurt were at the state level—specifically, the governor's office, which has more than doubled its staff since then.

WAYNE S. FERGUSON
Fremont Unified School District
Fremont, Calif.

Social Security cure

I take issue with James J. Kilpatrick (whom I like very much) concerning Social Security ["Stumbling Toward the Chasm," July].

The smartest thing the government could do would be to get out of this business entirely. This could be done simply by continuing to pay people who are now covered by Social Security and not accepting any new members as of Jan. 1, 1983. Then we should let this monster run its course.

Considering the amount of money the Department of Education costs taxpayers, it could inform young people that the government will no longer be responsible for their financial arrangements when they retire.

ARTHUR LEE
Valley Maintenance & Supply
Latrobe, Pa.

Tax advice from the past

Your July editorial, "Don't Surrender on Tax Relief," was not tough enough. In the present tax flap not enough space is given to reduced spending.

Frederic Bastiat, a French legislator and statesman of the 19th century, had words for us today. A selection from George Roche's book, *Frederic Bastiat: A Man Alone* (Arlington House, New Rochelle, N.Y.), seems apropos:

"When it is a question of taxes, gentlemen, prove their usefulness by reason with some foundation, but not with that lamentable assertion: 'Public spending keeps the working class alive.' It makes the mistake of covering up a fact that it is essential to know: namely, that *public* spending is always a substitute for *private* spending and that consequently it may well support one worker in place of another but adds nothing to the lot of the working class taken as a whole. Your argument is fashionable, but it is quite absurd, for the reasoning is not correct."

If Congress cannot understand and act on these words, perhaps we had better turn the rascals out!

DANIEL C. OST
President
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Pottsville, Pa.

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BY JAMES J. KILPATRICK

Fresh Air From the FTC

NOW AND THEN a statement comes from the federal bureaucracy so refreshing in its common sense, so sound in its expression of wise public policy, that one reads it first with amazement and then with applause. This doesn't happen often, mind you, but it happened at the Federal Trade Commission a few weeks ago, and I am still a little overwhelmed by it all. At the FTC! As the grandchildren say, who'd a'thunk it?

This splendid bolt of lightning came from Timothy J. Muris, director of the Bureau of Consumer Protection. Muris is 32, a native of Massillon, Ohio, a Californian by adoption. He worked for the FTC in 1974-76 in policy planning and evaluation; then he taught for five years at the University of Miami's Center for Law and Economics. He served on the Reagan transition team charged with review of regulatory agencies. Last October the FTC's new chairman, James C. Miller III, named him to head the Bureau of Consumer Protection.

The Bureau of Consumer Protection is the most prominent of the three bureaus that constitute the FTC's domain. It serves as a kind of alembic in which proposed trade rules and regulations are refined and distilled. In times past the bureau has distilled some beauties.

Back in May one such proposal at last came to a head. This was a rule intended to impose industrywide regulations to govern certain food advertising, dealing chiefly with "natural foods," "energy foods" and the cholesterol content of other foods. The bureau's staff had been working on the rule for eight years, through a long and tedious process of publication, comments, hearings, revisions, more comments, recommendations and so on. Finally the proposal reached Muris' desk. He combed carefully through the supporting record. And then, like the little girl in the famed *New Yorker* cartoon, he pronounced judgment. He said, in effect, that I say it's spinach, and the hell with it.

A FEW WEEKS LATER, in an equally drawn-out proceeding involving expanded rules for "care labeling" of fabrics, he came to the same conclusion. His clear and cogent memorandum opinions ought to be savored in full; they may be obtained on request from the FTC's Office of Public Affairs. Let me provide a taste of Muris' reasoning.

First off, he said, industrywide rules and regulations ought not to be imposed until the record convincingly discloses a need for them. Proof of need should not be merely "anecdotal." If the supposed problem, for example, is that advertising of "natural" foods is deceptive or misleading, hard evidence must be adduced that substantial numbers of consumers have in fact been deceived or misled.

The need for industrywide regulation having been established, the next step is to consider the proposed remedy. In the case of food advertising, would the precise directives accomplish their desired end?

Third, would the supposed benefits of the remedy justify the costs that would be imposed on manufacturers and ultimately on consumers?

"Two reasons," Muris said, "justify requiring hard evidence before we act. First, there should be a general presumption against government-mandated changes in established practices. . . . Second, there is a heavy presumption that markets work."

IN THE ORDINARY bureaucratic practice, the presumptions are precisely the opposite. Fish swim, birds fly, regulators regulate. It is the nature of the breed. Given the power to act, the urge to exercise that power usually becomes irresistible. We have seen this in times past at the FTC. For one example, there never was hard, empirical evidence—as distinguished from mere anecdotes—to justify the proposed regulation of funeral directors. There never was hard evidence of a need for regulation of TV advertising aimed at children. As Congress made manifest by its recent legislative veto, there never was evidence that the proposed rule on used cars would provide a remedy worth the cost.

It is not only at the FTC, to be sure, that the bureaucratic mindset has been so troublesome. The Consumer Product Safety Commission once sought to destroy an importer of ornamental dolls because the dolls' elaborate costumes were held in place by pins—though there was not a scintilla of evidence that anyone ever had been hurt by the pins. The Occupational Safety and Health Administration lost respect and won contempt for some of its frivolous impositions. Scores of regulations having to do with food, drugs, transportation, race relations, education and the environment could not survive rigorous examination under the Muris approach.

First, prove the need. Second, prove the remedy. Third, prove that benefits of the remedy will exceed the costs. Those reminders ought to be carved in stone over half the doorways in this federal town. □

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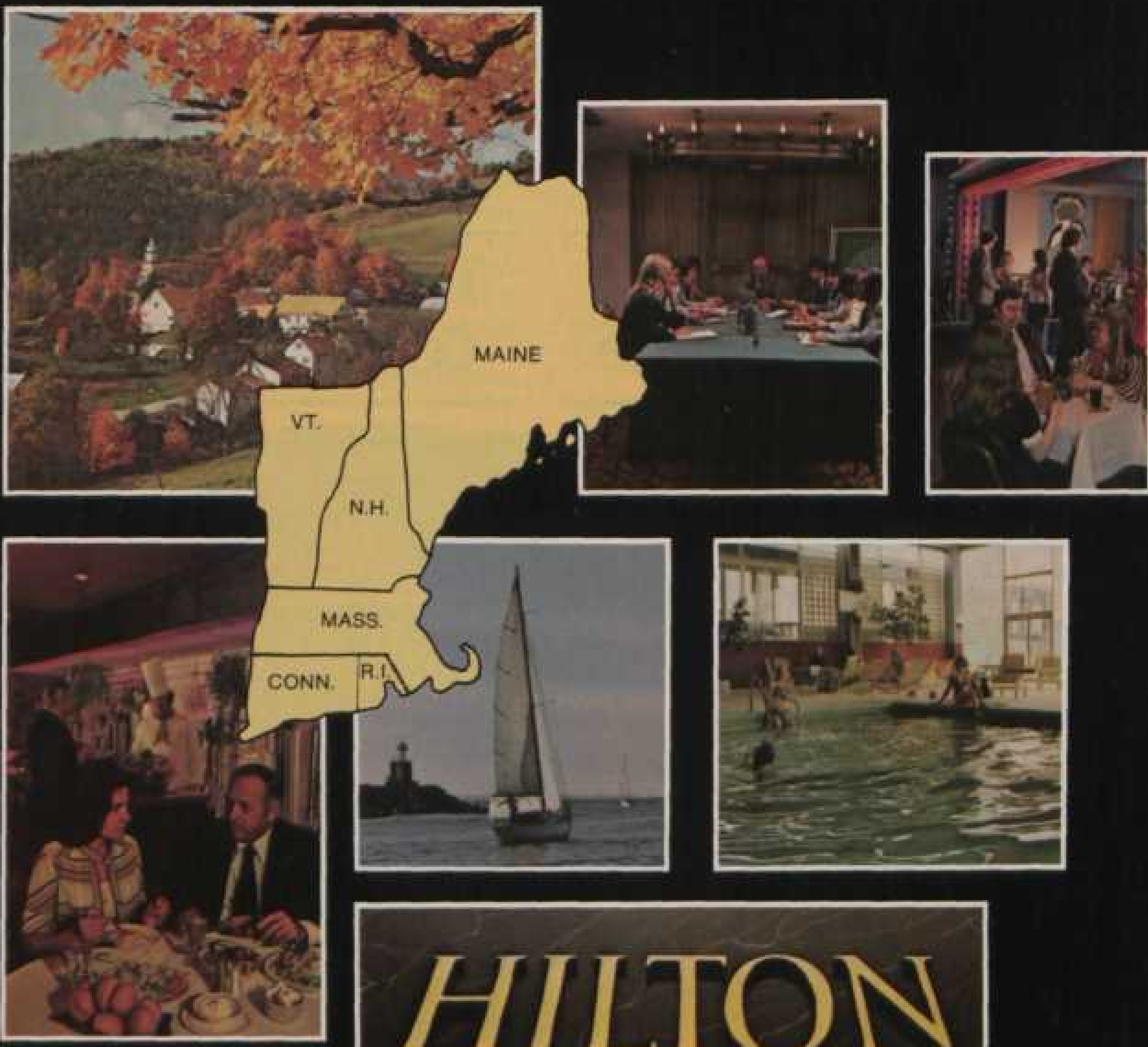

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OUTLOOK

Aid To Keep U.S. Fishing Fleets Afloat

Reducing the U.S. deficit in fish products is a goal of the loan program for boats.

Government loan money is available to buy new and reconditioned fishing boats.

The National Marine Fisheries Service, a unit of the Department of Commerce, is seeking small business participants "with a track record" for its Fishing Vessel Obligation Guarantee Program. The long-term loan program provided 239 loans worth $83.5 million in 1980 but made only 83 loans worth $35 million in 1981.

Jim Meehan, a program leader with the service, says the loans, at current interest rates of 14 to 16½ percent, are "no panacea" but could help prevent trade deficits in fish products. That deficit was $3 billion last year. Government aid, he says, is needed because fishing income is unpredictable and boats are expensive—a three-person shrimp boat costs more than $300,000.

The fisheries service is also pushing venturesome eating: Fishermen could easily provide more Alaskan bottomfish, squid and Pacific hake if the public were willing to buy it.

Small Firms Will Get Larger Share of R&D

When fully phased in four years from now, small firm set-asides required by the Small Business Innovation Development Act will amount to about $375 million a year.

The legislation requires federal agencies with annual research and development budgets above $100 million to earmark 1.25 percent for small business contracts. The act was bitterly fought by major universities, which argued that the measure would deprive them of research grants.

Rep. Parren J. Mitchell (D-Md.), chairman of the House Small Business Committee, is "completely satisfied" with the support the bill received from small business trade groups and individual small business owners. The 353–57 House vote in late June (Senate approval came late last year) "is a clear signal that the legislative process must provide recognition to the nearly 15 million small businesses in this country," Mitchell says.

Philip Speser, who as executive director of the National Institute for Entrepreneurial Technology lobbied hard for the bill, says, "Small business had strong opposition—there was more to win and more to lose."

The act's chief sponsor, Rep. John J. LaFalce (D-N.Y.), says its passage is a victory for small firms and for improved productivity. Small businesses are assured the right to compete for government research dollars, the congressman says, and competition for the contracts will increase.

Banks Seek To Retain Independence

An organization of small and medium-sized banks says its members, which provide three quarters of the commercial loans to small business, feel threatened.

The danger, says Robert L. McCormick, Jr., president of the Independent Bankers Association of America, is that sweeping depository deregulation being considered by Congress could lead to "small banks' being swallowed by larger banks." The independent bankers group is a trade association representing about 7,200 small and medium-sized commercial banks.

"We should be cautious about mandating a situation where the local bank is but one branch of hundreds of a money-center institution located 1,000 miles or more away," he says. McCormick, who is also president of Stillwater National Bank & Trust Company in Stillwater, Okla., believes that the economy of scale available in deposit-taking doesn't extend to processing commercial loan applications. If the local bank becomes part of an institution that has adopted a market strategy of mass-producing financial services to large businesses and wealthy individuals, small businesses, including small farms, will find it more difficult to have their credit needs met, he says.

Repeated surveys show that small business people still prefer to deal with a small, local bank.

Some observers, disagreeing with McCormick, say the most ticklish problem facing small banks isn't fending off larger banks but competing with nondepository financial institutions like money-market funds, which have made inroads on banks' deposits.

PHOTO: J. ANDERSON—UNIPHOTO

Sweeping depository deregulation now being considered on Capitol Hill could lead to difficulties for small business borrowers, a bankers association warns.

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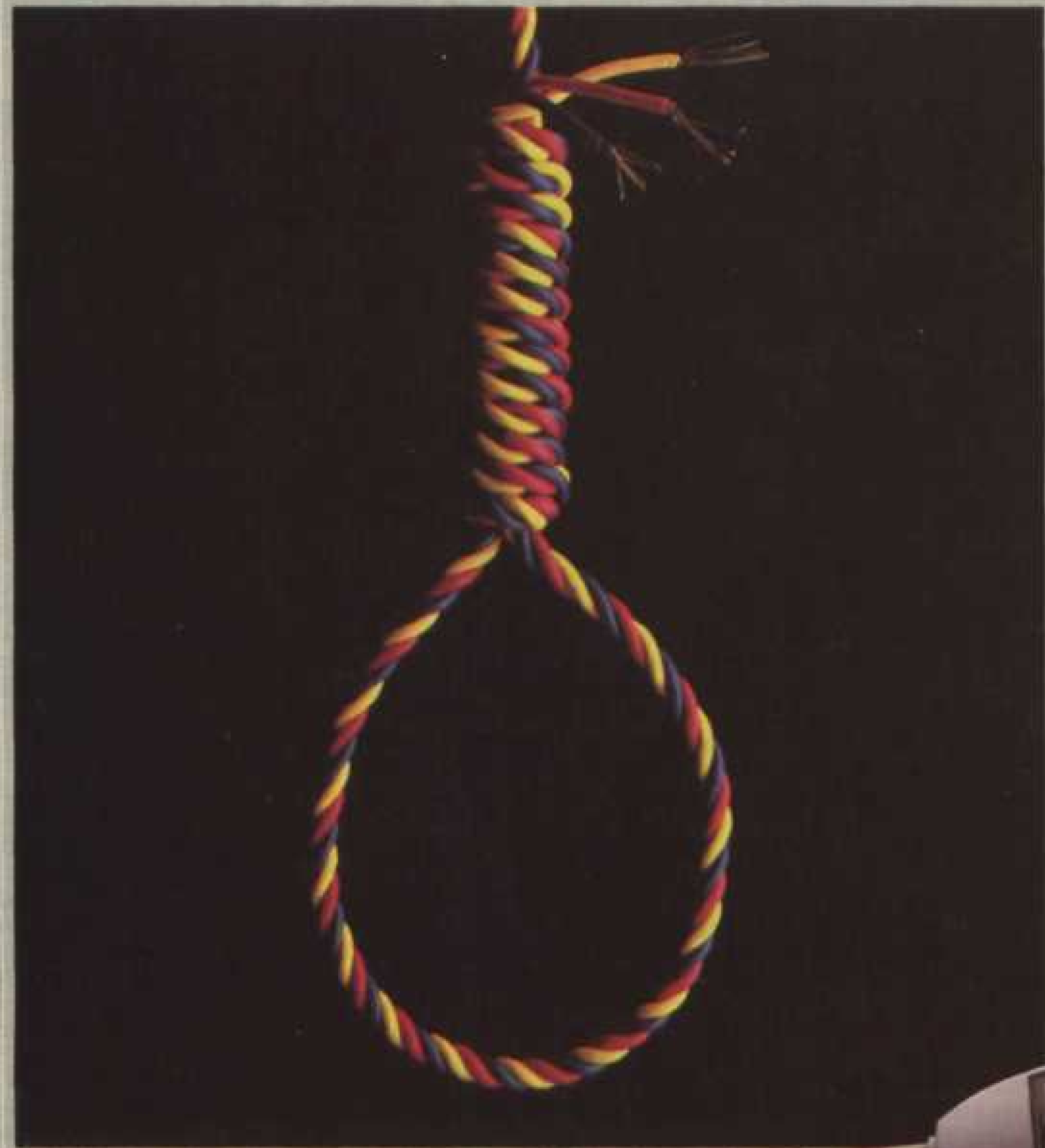

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GENERAL ELECTRIC

Joint Project: Secure Telecommunications

The Pentagon and the communications industry are planning for emergencies.

Defense Department officials are stepping up efforts to expand joint industry-government planning to protect and improve telecommunications in support of national security.

Government and industry leaders will be meeting periodically at the Pentagon to discuss what steps they can take to ensure that the national communications system will work during and after emergencies.

"There are problems to be worked out that will require a close working relationship between DOD and business," says Donald C. Latham, deputy undersecretary of Defense for communications, command, control and intelligence. "For instance, if the data of commercial satellites should be encoded, that's going to increase their cost. Who's going to pay for it?"

The national communications system consists of the communications resources of 11 government operating agencies. At least 85 percent of these are leased from common carriers—the Bell System and more than 200 independent telephone and domestic satellite companies.

These capabilities would be essential for military command and control during a crisis. Afterward, they would also be a prerequisite for restoring government functions and for overall economic recovery.

Pace Quickens For DOD's Waste Audits

Defense Secretary Caspar Weinberger's assault on fraud and management inefficiency is gaining momentum.

Progress is being made in several key areas, including audit follow-up. In the past, hundreds of suggestions on achieving major cost savings poured in from Congress, the General Accounting Office, the services and business. Most, however, were ignored.

Now a management information system for tracking the status and resolution of audits is in place. As of April 1, virtually all DOD and GAO internal audits that were more than six months old had been resolved.

"Formal agreement was reached on a future course of action to satisfy audit recommendations," says Joseph H. Sherick, assistant to Weinberger for review and oversight.

Sherick has also closed "semantic loopholes" that made it possible for managers to avoid complying with audit recommendations.

The DOD hot line for uncovering fraud and waste is receiving an average of about 700 calls a month, up substantially since January. About one third are valid leads.

In another area, the Defense Criminal Investigative Service, a new entity established to concentrate on white-collar crime within DOD, has 84 of its 87 authorized special agents operating. The DCIS has 264 ongoing investigations, of which 159 involve alleged fraud.

Pending Bills Would Boost Cogeneration

Federal lawmakers are trying to hammer out legislation that would encourage utilities to speed up the development of cogeneration—generating two energy products simultaneously, usually electricity and heat—and, ultimately, small power plants.

One disincentive has been a federal law that prohibits utilities from owning more than 50 percent of subsidiary cogeneration and small power-production facilities. Sen. Gordon J. Humphrey (R-N.H.), a member of the Energy and Natural Resources Committee, is sponsoring a bill that would remove that restriction. His proposal, however, would still allow states to be the final judge of the "appropriate level" of electric utility participation in such projects.

"The legislation has significant support, but we're still trying to find a compromise position to enhance its chances for passage," says a committee source.

Cogeneration is in the midst of a rediscovery. It was used much more extensively at the turn of the century.

Glenn H. Lovin, manager of alternate energy applications for Edison Electric Institute, which represents about 200 investor-owned electric utilities, estimates that utilities are only about 33 percent efficient in the production of electricity; the remainder of their primary fuel goes up the stack in waste heat. "Utilities could double their efficiency by using cogeneration," he says.

Coal Slurry Pipelines Appear More Likely

A final congressional decision is nearing on the coal industry's 20-year fight to secure federal eminent domain legislation for coal slurry pipelines.

Opposition by railroads, which transport nearly three fourths of all domestic coal, has stalled pipeline plans for years. And recently the Reagan administration came out against the idea of eminent domain on grounds of states' rights. Moreover, since underground pipelines would move a mixture of water and powdered coal to electric utility companies, people concerned about water resources have become another source of opposition.

Despite those obstacles, bills that would grant eminent domain are now pending in Congress, and they have bipartisan support. Even if an eminent domain law is enacted, states would retain the right to withhold water.

Without eminent domain, companies wishing to construct an interstate pipeline would have no chance of obtaining the necessary rights-of-way. "Everything is dependent on these bills," says a spokesman for the Slurry Transport Association.

Continental Resources Company, a division of Continental Group, has proposed a pipeline from the Appalachian coal-mining region to Florida, where some electric utilities purchase coal from overseas. Reason: It is cheaper than what utilities have to pay for U.S. coal because of rail transport costs.

Moving coal by rail may be costly, but obstacles to slurry pipelines remain.

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ECONOMY

No Prospects for Bailouts Under Reagan

Don't expect any bailouts from the Reagan administration. The President made that clear to business when he vetoed an urgent supplemental appropriations bill in late June because it contained $3 million for home mortgage subsidies.

The reasons for the administration's implacable opposition to subsidies for any sector were outlined in a recent speech by Murray L. Weidenbaum, chairman of the Council of Economic Advisers.

First, he said, bailouts send the wrong signals. They tell people not to worry about investment risks and cost overruns.

Second, they would worsen an already difficult budget situation.

Third, they do not work. Countercyclical programs, he says, "have uniformly contributed little or nothing to bringing a particular sector, or the economy as a whole, out of a cyclical downturn."

Fourth, they are inherently unfair. Weidenbaum points out that one of the mortgage plans would have aided, at most, 74,000 home buyers. Imposition of "domestic content" requirements on the auto industry, he says, would probably cost the economy three or four times the average auto worker's salary for each job created.

Fifth, bailouts encourage further federal intrusion into the affairs of business firms and individuals as the government imposes rules and reporting requirements to try to protect its investment.

And finally, bailouts are wasteful. Resources are squandered, Weidenbaum says, when the government tries to prop up firms that are "failing the test of the marketplace."

Population Trends With Economic Impact

What are the major demographic trends that will influence the economy for the remainder of this decade? The Population Reference Bureau, a Washington-based research organization, assembled a panel of federal experts to answer that question. Here's what they see in their crystal ball:

- The fertility rate—now at a near-record low of 1.9 births per woman—will stay low, contrary to predictions that the 55 million baby-boom women now of childbearing age will touch off a new boom. As many as 25 percent of the women now in their 20s will remain childless.
- Life expectancies will continue to increase, reaching 80 for women and 71.9 for men by 1990.
- The divorce rate will continue to rise, as will the number of unmarried couples living together. The latter group may reach 7 percent of two-person households by 1990, compared with 3.5 percent in 1981.
- Nonmetropolitan growth will continue to outstrip metropolitan growth, but at a declining rate. People will continue to migrate to the South and West. However, the number of Americans relocating their homes will drop from the recent standard of 20 percent a year to about 16 percent.
- The net population gain from legal and illegal immigration will average nearly 1 million a year, preventing attainment of a steady-state population level and confronting the nation with challenges similar to those produced by earlier waves of immigrants at the beginning of the century. Efforts to reduce illegal immigration will be offset by increases in legal immigration, as the large numbers of aliens already here become citizens and then send for their close relatives abroad.

TRANSPORTATION

More Commuters Forsake Mass Transit

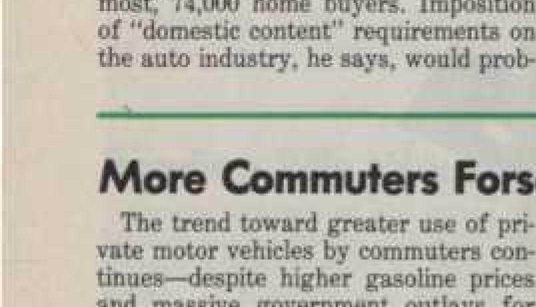
The trend toward greater use of private motor vehicles by commuters continues—despite higher gasoline prices and massive government outlays for public transportation.

The Census Bureau reports that 84 percent of all U.S. workers choose a car, truck or van to get to work, compared with 78 percent a decade earlier.

Public transportation patronage declined from 9 percent to 6 percent over the same period.

The balance of workers work at home, walk to their jobs or use other means of transportation.

PHOTO: MICHAEL J. PETTYPOOL—UNIPHOTO



Though buses zip along in an express lane, still more commuters want to drive.

The increase in commuting by private vehicle was greatest in Louisiana (up 11.4 percent), South Dakota (11.3 percent) and North Dakota (11.1 percent).

California, Texas and New York have the greatest number of motor vehicle commuters, with 8.9 million, 5.7 million and 4.5 million, respectively. Together, those three states account for nearly 24 percent of the people who ride to work in a car, truck or van.

The District of Columbia is an exception to the trend of increasing use of private vehicles to commute. Workers in the national capital reduced such commuting by 3.6 percent after the first major segments of a planned $9 billion rapid-transit system were opened. But system patronage began slipping this past year after fares were increased and riders complained of declining service.

The Car That's Worth $140 Million

A bill before Congress would authorize a prize up to $140 million for design of a "radically new automobile embodying high fuel economy, safety and environmental standards . . ."

The competition would be conducted by the Secretary of Transportation.

To be eligible, the entrant (an individual or company with U.S. allegiance) would have to design, develop and manufacture an automobile capable of the following performance:

- Transporting four people with luggage.
- Getting 100 miles per gallon in a diesel version or 80 miles per gallon in a gasoline version.
- Climbing a 7 percent grade at 55 miles per hour with 850 pounds.
- Accelerating from 0 to 60 in 19 seconds with 850 pounds.
- Braking in a distance equal to the average distance for all 1982 models.
- Having a service life of 100,000 miles.
- Selling for $6,000 to $6,500 in 1982 dollars.

The chairman of Battelle Memorial Institute in Columbus, Ohio, the world's largest nonprofit research and development organization, contends that technological improvements encouraged by the bill "would result in greatly reduced oil consumption in the years to come." Says Sherwood L. Fawcett, such research "would help the United States re-establish its position of leadership in the automotive world."

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Demand for Secretaries To Keep Growing

The Bureau of Labor Statistics expects the number of secretarial jobs in the United States between 1980 and 1990 to grow by 28.3 to 37.4 percent—faster than the average growth rate of all occupations.

The demand will result from "more paperwork created by the expansion of business and government," says the bureau's *Occupational Outlook Handbook*.

"Neither office automation nor economic downturns," according to the handbook, "are expected to have an adverse effect on employment of secretaries. Technological developments in office equipment are certain to continue, and they will bring about further changes in the secretary's work environment.

"However, automated office equipment cannot substitute for the personal qualities that are essential to a secretary's job."

The need for stenographers will decline because of the widespread use of dictation machines. However, skilled shorthand reporters will remain much in demand because of the increasing number of court cases, the handbook forecasts.

PHOTO: STACY PICK—UNIPHOTO

A secretary's personal skills cannot be replaced by computerized equipment.

U.S. Losing Its Lead In Industrial Wages

The industrial-wage gap between the United States and other developed nations is closing.

This country, once the pacesetter on wages, now ranks fifth.

Average hourly wages of workers in Australia, Sweden, Switzerland and West Germany surpassed those of U.S. wage earners in October, 1980, a new study shows.

The study was made by Towers, Perrin, Forster & Crosby, a New York international management consulting firm. Its research was based on figures supplied by the Washington office of the International Labor Organization, which is headquartered in Geneva, Switzerland.

Called the *1982 Worldwide Total Remuneration Report*, the study reveals that the gap between wages in the United States and Western Europe is closing gradually.

In the United Kingdom in 1976, for example, average hourly earnings were only 53 percent of those of the United States; by 1980, they had risen to 86 percent of the U.S. level.

Similarly, average wages in the Netherlands in 1976 were 76 percent of those of the United States; by 1980 they were 97 percent.

Still behind the United States are Canada, 98 percent; Netherlands, 97; United Kingdom, 86; Italy and Japan, 74; France, 71; followed by Belgium, 65; Spain, 57; Brazil, 38; Venezuela, 29; and Mexico, 26.

Despite Rains, Good Crops Expected

Although lower-than-normal temperatures and above-average rainfall have interfered with maturation and harvesting of wheat crops, the overall prospects point toward good yields in the United States. Hot, dry conditions in parts of the Soviet Union and Australia are expected to reduce crop yields in those countries, increasing the market for U.S. surplus.

This year, says Norton D. Strommen, chief meteorologist for the Department of Agriculture's World Agriculture Outlook Board, abundant precipitation has produced enough subsoil moisture that even extended dry periods would not be too damaging to current wheat crops.

However, rain and hail damaged some winter wheat in Texas, Oklahoma and Kansas and delayed harvesting. The excessive moisture also has increased the possibility of such plant diseases as rot.

Weather may also reduce corn production. Rain in the Western corn belt has delayed planting and reduced the number of acres planted on some of the most productive acreage in the country. Many farmers have planted faster-growing soybeans instead.

Still, in the West, sunny weather has aided crop development and the overall outlook is good unless there is an early frost.

PHOTO: USDA

Though heavy rains and hail damaged some crops, experts predict high yields.

A "Plastic" Bag That's Biodegradable

Plastic bags don't grow on trees, but researchers at the Department of Agriculture's Northern Regional Research Center in Peoria, Ill., have come close. Using starch from corn, wheat and other farm crops, they have developed a biodegradable plastic material.

The researchers' new ABC plastics—*agricultural* products that are *biodegradable* and *conserve* petroleum resources—should find ready markets in agriculture and industry.

Most petroleum-based plastics don't decompose easily and thus become pollutants. Felix H. Otey, a research chemist for USDA, emphasizes that the biodegradation of the new plastic can be controlled. It won't simply disappear at some unexpected and inconvenient time. The breakdown doesn't start until the plastic reacts with various microorganisms.

The material, Otey says, is now fully developed and ready for testing. According to Otey, water-resistant plastics have physical properties suitable for a variety of packaging uses and for agricultural mulches.

Farmers also need a degradable plastic film as a coating for controlled release of pesticides and for containers of seedlings and toxic chemicals.

The biodegradable quality of the plastic may make it useful for throwaway cups, cutlery, trays and many other items intended for one-time use. Since the starch-plastics show a low oxygen permeability, they could be important as a flavor retainer in food packaging. □


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The Flat-Rate Tax: What's Ahead

Simplifying the income tax system is no simple matter.

By Barry Crickmer

PRESIDENT REAGAN finds it tempting. Treasury Secretary Donald Regan thinks it's fair. Budget Director David Stockman says it may be proposed in the 1984 budget. And the Democrats are making it a campaign plank.

The subject of this unusual bipartisan approbation is an old idea that has become a hot topic in Washington: the flat-rate income tax.

In its purest form, the plan would apply a single rate—a figure between 10 and 20 percent is considered most likely—to all income. There would be no deductions, exemptions, exclusions, credits or deferrals.

Washington tax experts believe that developments on the flat-rate tax proposals will unfold this way:

• The Senate Finance Committee, the prime source of congressional innovations on tax policy in recent months, will hold hearings this fall.

• Then, the many constituencies that would be adversely affected by elimination of various deductions will begin mobilizing to fight.

• A critical point will come late this year or early next, when President Reagan will decide whether to ask Congress to enact some form of a flat-rate income tax. Such a proposal could come in his State of the Union or budget message, both due in early 1983. Some recent Reagan comments have fueled speculation that he is growing more receptive to the idea. The President's backing could give the plan unprecedented impetus.

• If Congress and the President decide against pressing for the flat-rate plan, the debate will nevertheless have become a major theme in the 1984 elections. The President and the Congress elected that year could very well come to office committed to the tax proposal.

Pressure to recognize the issue is already being felt, as shown by the large number of flat-rate tax bills so far introduced and the Senate Finance Committee's plans for hearings.

None of the measures now pending, however, meet the stark definition of a pure flat-rate tax plan. Some come close, though, and "flat-rate tax" has become the generic term for the current group of reform proposals.

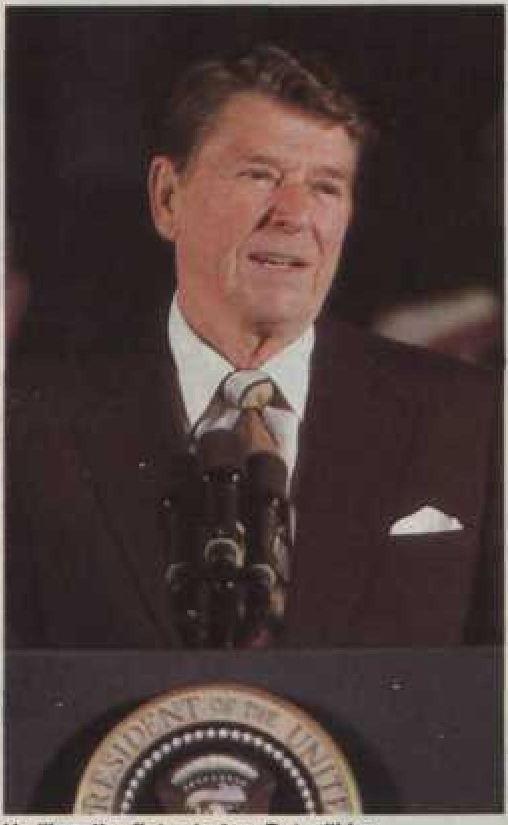


PHOTO: ROBERT BURGESS

He likes the flat-rate tax. But will he put a version of it in the 1984 budget?

The diversity of the simplification plans reflects the philosophical and practical difficulties of trying to apply a simple principle to the real world.

At one extreme is H.R. 5868, introduced by Rep. Kent Hance (D-Tex.). It merely calls for a Treasury study of a gross income tax (essentially a tax applied to all income), which might or might not have progressive rates.

At the other extreme is H.R. 6070, from Reps. Leon E. Panetta (D-Calif.) and Beryl Anthony, Jr. (D-Ark.). It establishes a flat rate for individuals and a sliding scale for corporations, specifying in detail numerous alterations to present deductions, credits and so forth.

Variety may add spice to life, but it can be poison to tax reform efforts. Legislators and lobbyists who have long experience with the tax code point out that a concept like tax simplification remains popular only as long as it remains an abstraction. Get down to specifics and it becomes obvious whose ox is to be gored. Then the general but weak support for reform is likely to be overwhelmed by vociferous objections from the owners of the oxen.

Compromise is the balm Washington spreads over vociferous objections. But compromise, applied to tax simplification, results in tax complexification. Indeed, that's how we got today's tax code. "The outcome of our attempts to make the tax code more equitable is a perception that it is inequitable," says William L. Raby, who heads the American Institute of CPAs' federal tax division. Veteran Washington tax lawyer Robert R. Statham agrees. The result of previous tax reform movements, he says, is that "there are now provisions in the income tax code that no one understands."

Internal Revenue Service experts fear that too much of that ignorance may be by design. They estimate that tax evasion is costing the Treasury as much as $97 billion a year. Consequently, one branch of the reform movement hopes to increase voluntary compliance by making the tax simpler, while another would adopt mechanisms—such as the value-added tax—that may be more difficult to evade.

It is the simplifiers who now occupy the stage, hoping to reduce 205 federal income tax forms to one or two the size of a postcard.

UNFORTUNATELY, the trade-off problems encountered in designing a flat-rate system are formidable. To produce an attractively low flat rate, the tax base—that is, income subject to taxation—must be very broad. And such schemes result in a downward redistribution of the tax burden.

For example: A flat tax of 11.8 percent on adjusted gross income would produce about the same revenue as the present system would have in 1981 if all the Reagan tax cuts had been in effect then, according to a Joint Economic Committee study. But the change would lower taxes for every income class above $30,000 and raise taxes for all below. Taxpayers in the $15,000 to

$20,000 range would face a 29 percent increase; those with income above $200,000 would enjoy a 53 percent cut.

One way to mitigate that effect is to allow everyone a generous personal exemption. Doing so causes the flat-rate tax to become mildly progressive, but it also reduces the tax base, requiring a higher flat rate. Further, although it shifts the burden from the low-income group, the upper brackets still come out

Sen. Robert Dole (R-Kans.) plans to hold hearings on flat-tax bills this fall.

way ahead. The JEC study calculates what would happen with a personal exemption of $1,500 and a zero bracket amount (standard deduction) of $3,000 for single taxpayers and $6,000 for joint returns. To yield the same revenue with this narrower tax base, the flat rate must be almost 19 percent. Tax increases hit those in the $10,000 to $50,000 range; taxpayers whose incomes are above $200,000 save 28 percent.

"There is no way to fine-tune these effects out of the system," says Joseph J. Minarik, deputy assistant director of the Congressional Budget Office's tax analysis division. He explains: "There are only two dials to turn—the flat rate and the amount of low-income relief—and they afford little flexibility."

ADDED TO THAT fundamental design problem is the prospect—traumatic for many taxpayers—of parting with beloved deductions, particularly the deductions for medical expenses and home mortgage interest. But there's another loophole whose closing could strike even more terror into the heart of a middle-class homeowner: deferral of the capital gains tax on the sale of a residence, commonly known as rollover. Under some flat-rate proposals, capital gains would be treated as income in the year they were realized. Thus, the homeowner who sells would be confronted with a tax on the paper profit from the inflation of real estate values in the 1970s.

To get around those hurdles, some reform bills aim for a position midway between pure flat-rate simplicity and the complexity of the present system. (See the table on page 24.)

One of them, the Bradley-Gephardt plan, was endorsed in all but name by the Democrats' National Party Conference in Philadelphia in June, and both sponsors are members of their respective tax-writing committees—always a plus for a tax bill.

Rep. Dan Rostenkowski (D-Ill.), chairman of the House Ways and Means Committee, has yet to take a position on the flat-rate bills. The committee's ranking minority member, Rep. Barber B. Conable, Jr. (R-N.Y.), dismisses the movement as "a cult." He doesn't think tax simplification matters much to the 70 percent of taxpayers who do not itemize. And he predicts that by the time a simple tax bill gets through the legislative process, it will be "virtually incomprehensible."

Sen. Robert Dole (R-Kans.), chairman of the Senate Finance Committee, calls the flat-rate tax "a good idea," but he, too, doubts that any proposal could emerge from Congress in as simple a form as it went in. Sen. Russell B. Long (D-La.), ranking minority member, calls the flat-rate tax unfair but is willing to study the idea.

The major business and professional organizations likely to be affected are also silent for now. Tax simplification is favored, in principle, by the American Bar Association, the American Institute of CPAs and the Chamber of Commerce of the United States. None, however, have a policy dealing specifically with the flat-rate tax.

A Hudson Institute study funded by Citizen's Choice, an organization affiliated with the Chamber, recommends a "consumption tax"—excluding from taxation all money that is saved or invested—with a flat rate in the 20 to 25 percent range. "The numbers turn out to be a lot higher than many people expect," says Irving Leveson of the institute, "but we still believe the basic approach is worthwhile." If any tax simplification proposals are included in the fiscal 1984 budget, the Reagan administration is most likely to produce some variant of a consumption tax.

Reaction among the charitable organizations is split. Some representatives, including Jack Moskowitz, senior vice president for federal government relations, United Way of America, warn of vigorous opposition to any tax bill that does not include a charitable deduction. "It's not likely a bill would pass without that," he says.

On the other hand, Robert Seiple, vice president for development, Brown University, says people don't give because of a tax incentive. "They give because of an emotional commitment to their charity. . . . A flat tax that increases disposable income would not be likely to decrease contributions."

Rep. Richard A. Gephardt (D-Mo.) promises a corporate tax-simplification bill soon.

With support from top officials of the Reagan administration, the loyal opposition, conservatives and liberals, the flat-rate tax would appear to be a shoo-in. But that appearance is deceptive. As soon as attention begins to narrow to one or two major bills, partisan cracks will develop. Lobbyists will gear up to protect their constituencies, driving wedges into the cracks. "I'm not holding my breath waiting for this to be enacted. I can't imagine that will happen," says John Shirey, legislative counsel for the National League of Cities.

Still, there is a possibility. Says a Senate aide: "Sometimes an issue gets so far along before it is taken seriously by potential opponents that when they wake up, it's too late to head it off. That happened with the constitutional amendment to limit spending. It could happen with the flat tax."

Flat-Rate Tax Bills Now Pending


Hansen


Crane


Helms


DeConcini


Panetta


Paul


Quayle


Bradley


Gephardt

Sponsor(s), Bill	Tax Rate
Rep. George Hansen (R-Idaho), H.R. 4821 Redefines "adjusted gross income" to eliminate deductions for long-term capital gains, moving expenses, retirement savings and repayments of supplemental unemployment compensation benefits. Defines "allowable itemized deductions" as any deduction attributable to expenses for production of income, contributions to churches or conventions or associations of churches, medical and dental expenses, and alimony or separate maintenance payments.	Individual: 14%
Rep. Philip M. Crane (R-Ill.), H.R. 5313 **Sen. Jesse A. Helms (R-N.C.), S. 2200** Repeals all deductions, credits and exclusions other than $2,000 deduction for each personal exemption.	Individual: 10%
Sen. Dennis DeConcini (D-Ariz.), S. 2147 Poorest households to be exempt. Fixed deduction for taxpayer and each dependent. No tax on capital gains. All income taxed only once. No distinction among types of businesses. Tax imposed on gross revenues. Rental and royalty income considered business income. Deduction for capital expenses (expensing), goods and services. Gross revenues of subsidiaries taxed separately.	Individual: Flat rate not to exceed 20% Corporate: Flat rate not to exceed 20%
Rep. Leon E. Panetta (D-Calif.), H.R. 6070 Eliminates most deductions, credits and exclusions other than basic business expenses. Establishes tax credits of $1,000 for individuals, $1,000 for spouses, $200 per dependent and $200 for individuals who are blind or over 65.	Individual: 19% Corporate: 3% up to $50,000 6% from $50,000 to $100,000 9% from $100,000 to $150,000 12% from $150,000 to $200,000 15% above $200,000
Rep. Ron Paul (R-Tex.), H.R. 6352 Repeals all deductions, credits and exclusions for individuals other than $10,000 exemption.	Individual: 10%
Sen. Dan Quayle (R-Ind.), S. 2557 Repeals most exclusions, deductions and credits. Allows $600 personal exemption. Income taxed only once. Deductions for ordinary and necessary business expenses, including capital recovery allowance. Marriage penalty eliminated. No one taxed twice on Social Security or other retirement contributions.	Individual: 0% up to $17,500 18% from $17,500 to $50,000 25% above $50,000 Corporate: 20%
Sen. Bill Bradley (D-N.J.), no number **Rep. Richard A. Gephardt (D-Mo.)** Exemption of $1,500 for single returns, $1,750 for single heads of household, and $3,000 for joint returns. Zero bracket amount is $2,300 for single returns and $4,600 for joint returns. Deductions for mortgage interest, employe business expenses, charitable contributions, and state and local income and real property taxes. Social security and veterans' benefits excludable. Interest on general obligation bonds exempt. Child-care credit converted to deduction. Exclusion for employer-provided health insurance reduced by one third. Maximum $125,000 exclusion of gain on sale of house by persons 55 or older is taxed at rate ranging from 6 to 14 percent; rollover deferral remains. Medical expense deductions limited to expenses in excess of 10 percent of adjusted gross income. Tax of 14 percent applies to investment income of pension plans, IRAs and Keogh plans. Other deductions, credits, deferrals and exclusions are repealed.	Individual: 14% plus 6% from $25,000 to $30,000 11% from $30,000 to $37,000 14% above $37,000

Highway Needs Vs. The Budget Crunch

Who will pay for badly needed construction and repairs?

By Del Marth

TRUCKS in Arkansas no longer stay in the right lane except when passing. They now tool along in the left lane, at the urging of state officials who consider the right lanes in too deplorable a condition for heavy traffic.

Outside Washington, some motorists will cross Woodrow Wilson Memorial Bridge only on a dare. They get queasy looking down into the Potomac River through gaping holes in the roadbed.

In California . . . but never mind, the story is the same everywhere. America's highways and bridges are cracking up.

At last count, in spring this year, The Road Information Program reported that the nation's thoroughfares were pocked with 200 million potholes. TRIP, a research group for the highway construction and insurance industries, got even more detailed: The average pothole is 16 inches across and 5 inches deep, takes 100 pounds of asphalt to fill and costs the taxpayers between $5 and $10 to fix.

But that is pocket calculator stuff. The nation's transportation experts use banks of computers to bring in the whole picture. And it is shocking. For starters:

- The Interstate Highway System is deteriorating at the rate of 2,000 miles a year.
- Nearly 8,000 miles of the interstate system need total rebuilding.
- More than 20,000 miles of the system require major repair within the next 12 years.
- Forty-five percent of the nation's 557,516 bridges are considered structurally deficient or functionally obsolete.

"The system is falling down behind our ears," says Transportation Secretary Drew Lewis.

More depressing is the readout on available monies:

"Grossly inadequate," reports the Congressional Budget Office, "a mismatch between funding and costs."

DECAYING ROADS, dilapidated bridges, a dearth of money—it is an encroaching disaster at all levels, local, state and federal. Yet remedies are surfacing, some innovative, some mundane.

For example, Lewis sees President Reagan's New Federalism program, with modifications, as the salvation to renovating the road network state by state.

In state capitals, officials see the solution in toll booths erected at intervals on interstates within their boundaries. The CBO proposes the pragmatic route of increasing the highway user tax.

In Congress, testimony talks up detouring more funds now budgeted for new highway construction into an expanded repair program. But had Congress, which in 1956 inaugurated the Interstate Highway System and created the Highway Trust Fund to finance it, babysat the system and the funding over the years, adjusting construction work and revenues as the economy changed, the current dilemma could have been prevented.

Transportation lobbyists continually warned lawmakers that the interstate system would begin wearing out at the same time that the money to repair it would be running out.

And that is exactly what has happened.

The key source of revenue is the fed-

Today's highway conditions (from top left): Gaping holes open frequently in the bridge that carries Interstate Route 95 across the Potomac River, and the resulting traffic jams can last well into the evening. Estimates for replacing New York City's crumbling West Side Highway range to $4 billion.

eral tax on motor fuels. It started out, in 1956, at 3 cents per gallon. In 1959 it was increased to 4 cents per gallon. And there it has stayed.

Despite this static source, revenues entering the Highway Trust Fund grew rapidly in the first 20 years of the interstate program because vehicular travel also grew rapidly.

But times changed. High fuel prices have cut consumption. So has the consumer trend toward fuel-efficient cars. The result: less revenue from the fuel tax. Another source—excise taxes on trucks and truck parts—also drooped with the economy.

THEN THERE WAS the reapportioning of the Highway Trust Fund itself. Between 1957 and 1973 the interstate system received 65 percent of the fund; the other 35 percent was earmarked for primary roads, secondary rural roads, urban extension roads, hazard elimination, rail-highway crossings and some 20 other continuing projects. In 1974 the fund split changed to 50-50.

All the while the earliest interstate routes were nearing the end of their 15- to 20-year life, adding to the already dismal diorama, since none of the Highway Trust Fund was budgeted for repair work.

Congress reacted, apportioning $175 million a year for repairs in 1976. Five years later the amount was boosted to $275 million. And with the Federal Aid Highway Act of 1981, repair monies totaling $800 million were set aside for both 1982 and 1983.

Little more than patchwork, say some. The Department of Transportation, for example, says it will take $1.6 billion to $2.1 billion a year for the next 10 years to keep up with interstate repairs.

Then there is the problem of completing the system. Some 1,575 miles of the system's 42,944 miles are not yet built.

This remaining mileage is in urban areas where construction is particularly costly; in fact, $38.8 billion is needed for the 1,575 miles, compared with the $176 billion spent between 1956 and 1981 for all the other 40,000-plus miles.

Increased costs also figure in. In 1959 it took $4 million to build one mile of interstate; today it costs more than $20 million per mile.

"The current interstate system is simply trying to do too much within the available revenue," points out the CBO. "As a result, the system may not be completed by 1990; indeed, it may never be completed unless revenues are increased."

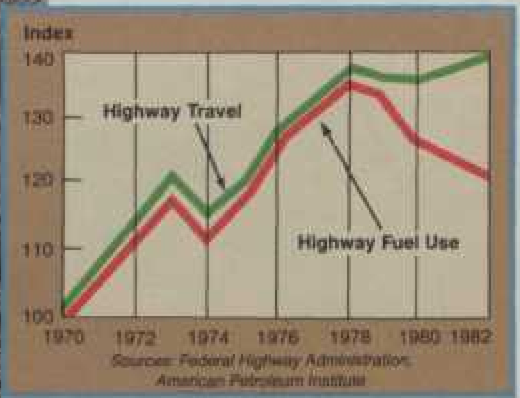
As for what it will cost the federal

government to meet all its highway commitments in 1983, from interstate projects to bicycle paths, take your pick.

The National Governors Association estimates $16.9 billion. Transportation Secretary Lewis thinks "a realistic figure is $13.5 billion." That doesn't jibe with his boss' proposal; President Reagan budgeted only $7.3 billion. Congress is talking $8.2 billion.

But the big thinker is the American Transportation Advisory Council. Looking down the deteriorating road, it estimates $404 billion will be needed during the next decade to make motoring again an endurable, if not pleasant, experience.

Economizing Drivers Pinch Highway Funds



Highway travel paralleled highway fuel use until gas-stingy cars allowed fuel consumption to drop even as travel increased. That has meant bad news for the Highway Trust Fund, which depends on fuel taxes to finance the repairs made necessary by increased travel. For the graph, miles traveled and gallons of fuel were converted into an index, with 1970 = 100. Figures for 1981 and 1982 are estimates.

FOR THE TAXPAYER, it is of little matter who is right. He will get the bill regardless. Most likely it will hit him at the gasoline pump. The federal fuel tax of 4 cents a gallon has to be increased; that sentiment is nearly unanimous. Only the President, committed to no new taxes, stands in the way.

Lewis last fall proposed a 4-cents-a-gallon increase, forecasting a yield of $4.4 billion a year. It didn't make it in Reagan's 1983 proposed budget. Lewis will try again this fall.

"Eventually it is going to happen because it is the right thing to do," he says. Congressmen from both parties agree.

If a fuel tax increase is voted, it may well be a part of Reagan's New Federalism program. Shifting responsibility for roads and repairs is a prominent feature of the President's proposal.

It would give the states total responsibility for all the highway systems—primary, secondary and urban extension roads. The federal government would remain accountable for construction of incomplete portions of the interstate system.

To help the states pay for their added responsibility, the federalism plan would assign part of the monies from the Highway Trust Fund to each state.

But many state officials are suspicious. They know the Highway Trust Fund is underfunded. They suspect the deficit would be shifted to the states. Thomas Walker, executive director of the Transportation Development Association of Wisconsin, calls it "a shell game."

State transportation experts like Thomas also fear being pre-empted by the federal government from raising gasoline taxes. Should the federal government double the federal fuel tax, for example, a state would be hard-pressed to also increase its state gasoline tax, even if additional state revenue were needed for increased construction and repair responsibilities.

Besides, some states feel they have already gotten short shrift. Though the federal government has kept its fuel tax at 4 cents for the past 23 years, states have repeatedly increased theirs. Average state gasoline tax now is 9.9 cents.

Toll booths, as repulsive as more taxes, also seem to be a part of the solution.

"I don't like tolls, but the problem of road maintenance is so serious that they are going to be needed," says Richard B. Robertson, an associate administrator at the Federal Highway Administration (FHWA).

South Carolina is considering toll booths on bridges to raise needed road funds. Maine has passed a law to siphon toll revenue from its turnpike into its state road maintenance program. Wisconsin wants to put toll booths on the interstate highways within its boundaries. Pennsylvania is thinking along the same line.

It is against the law for any state to put a toll on its interstate highways unless the state wants to give back the federal money it got to build that interstate. But the idea of scratching that refund requirement has already been broached by the FHWA.

HOW PRESIDENT REAGAN would look upon putting tolls on interstates is not known, but the idea fits in with reducing the federal budget and transferring more responsibility to the states.

If and when it happens, Wisconsin will be ready, reluctantly. The state has 500 miles of interstate and figures it can raise $50 million a year at toll booths. Cars would pay 2.4 cents a mile traveled, trucks 6.5 to 7.5 cents.

Edmund Byrkit of the Wisconsin Transportation Department points out Wisconsin gets only $12 million annually from Washington to maintain interstate highways and needs $40 million. "We've got to get the money somehow," he says.

He admits tolls would hurt the state's tourist business. But then so would reports that a vacationing family fell through a bridge or disappeared into a pothole. □

Pothole Festival

Some folks in Chauncey, Ohio, estimated that their town had a pothole for every resident—about 1,000.

What the town didn't have was enough money in the treasury for repairs.

Voilà! The Chauncey Pothole Festival.

For two days in July the townspeople, having set up booths in the old football stadium, bought their neighbors' donated homebaked goods, crafts, white elephants, chili dinners and the like.

When it was over, festival officials took the nearly $5,000 and bought the town some asphalt.

Such enterprise doesn't go unnoticed these days in the White House.

The President, on learning of the town's festival, sent Chauncey residents his congratulations for solving their problems in the traditional American spirit.

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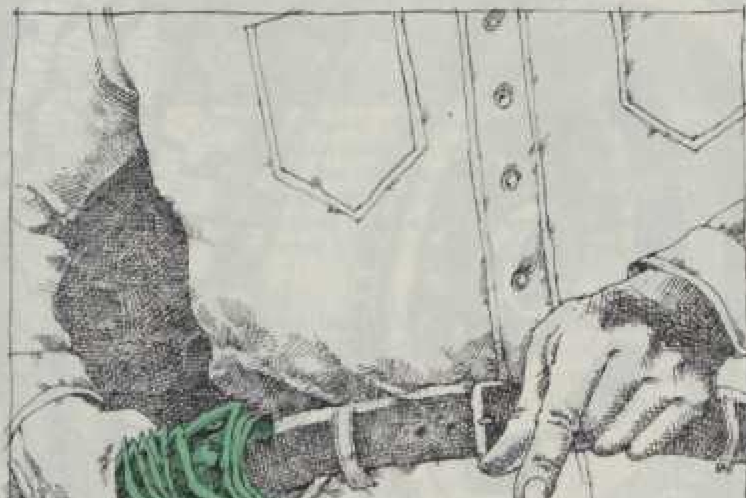
Dealing With Tax Evaders

Proposed bills to enforce tax compliance are likely to burden business without closing down the underground economy.



COMMISSIONERS of the Internal Revenue Service are noted for choosing their words carefully. Consequently, people sit up and take notice when one of them says of tax evasion: "The dollars involved have reached alarming levels."

That's how the current commissioner, Roscoe L. Egger, Jr., sized up the situation when he testified before a Senate Finance subcommittee last spring. IRS estimates that the total "tax gap" may be as high as $97 billion for 1981 and fears it could reach $120 billion in 1985.

Two bills to deal with this problem are making their way through Congress. The Taxpayer Compliance Improvement Act of 1982, S. 2198, is sponsored by Sen. Robert Dole (R-Kans.), chairman of the Finance Committee, and Sen. Charles E. Grassley (R-Iowa). In the House it is designated H.R. 5829 and sponsored by Rep. Barber B. Conable, Jr. (R-N.Y.), ranking minority member of the Ways and Means Committee. The other bill is the Tax Compliance Act of 1982, H.R. 6300, sponsored by Ways and Means Chairman Dan Rostenkowski (D-Ill.).

Both bills attempt to deal with noncompliance by tightening up reporting requirements, increasing penalties and strengthening the hand of IRS.

IRS says that withholding is the most effective means of ensuring compliance, with a success rate of 97 to 99 percent.

Next most successful is information reporting, in which documents of transactions that may generate a tax liability are sent to IRS. Information reporting produces almost 90 percent compliance, IRS says.

Where neither withholding nor reporting is used, the compliance ranges from 60 to 80 percent. Since past Congresses have been unwilling to broaden withholding, the two bills emphasize increased reporting.

Business groups testifying on the legislation have been generally supportive of the objective—discouraging tax evasion—but take exception to numerous specific features of each bill. The most frequent complaint is that the added burdens of risk and red tape to be imposed on businesses are out of proportion to the additional revenue that might reasonably be expected to result.

Apparently, the bills' drafters feared that such might be the case, since both bills exempt IRS activities from the Paperwork Reduction Act.

IRS now matches against tax returns only 26 percent of the 300 million documents filed annually, observes David E. Franasiak, director of the U.S. Chamber's Tax Policy Center.

He suggests that "resources should be focused on using data already being filed" rather than on increasing the number of forms.

Another general objection is raised by Washington lawyer Gerald Feffer, chairman of the American Bar Association's Task Force on the Underground Economy and a former Justice Department official in charge of prosecuting criminal tax evasion.

"Basically, the approach is more penalties, and I'm not sure that is going to solve the problem," Feffer says. "Most of the provisions in these bills deal with people who are already in the system," he explains. "I don't think that either bill really addresses the underground economy."

Among the bills' features that concern business analysts:

Penalty for substantial understatement. Both bills specify a penalty for "any substantial understatement of tax." The purpose is to end what Egger calls "playing the audit lottery": Some taxpayers take highly questionable tax breaks on the chance that their returns will not be selected for audit. If they are audited, they plead that the underpayment is due to an honest difference of opinion over the proper interpretation of the rules.

In S. 2198 the penalty is 10 percent of the underpayment. In H.R. 6300 it is 20 percent of the interest payable on the underpayment. The penalties would not apply if the taxpayer had included on his form information "adequate" to explain why he believed he was entitled to the deduction or other tax break.

The Chamber objects to this penalty on the grounds that business tax returns "contain many judgments as to the treatment of items on which ad-

vance guidance from the IRS is difficult to locate, unavailable or ambiguous." The Chamber says that the documentation required to assure adequate disclosure could lead to large increases in supplementary filings on tax returns, "creating a major additional burden for both taxpayers and the IRS."

Machine-processable reporting. Both bills authorize IRS to require tax returns to be filed on magnetic tape or paper forms that can be read by machine. H.R. 6300 requires that the cost imposed on the taxpayer be considered; S. 2198 does not.

Many large corporations already submit their returns on computer tapes, but business representatives believe there should be an exemption for small businesses.

Penalties for understating tax liability. H.R. 6300 creates a new civil penalty for anyone who helps prepare a document that he knows is likely to be used in understating someone else's tax liability. The penalty is $1,000 for each individual return or document and $5,000 for each return involving corporations.

In S. 2198 the penalty is 50 percent of the underpayment, up to $100,000, and it applies only to acts of corporate directors, officers, employes and advisers that affect the corporation's tax. There is no requirement that the fraud be connected to the preparation of any particular document. Further, the definition of "knowing participation in fraud" includes situations where the individual "knew, or should have known." Business representatives call this provision vague and difficult to apply, and they contend that present penalties are sufficient to discourage corporate tax evasion.

Denial of interest on refunds. Under present law, interest on refunds runs from the date of overpayment.

If an overpayment is refunded within 45 days of filing, no interest is paid. An overpayment resulting from carrybacks for net operating losses, net capital losses or credits is considered as occurring at the end of the year in which the carryback arose.

H.R. 6300 extends the no-interest period to 90 days. Carrybacks would be treated as having occurred on the due date (with extensions) of the return for the year in which they arose.

S. 2198 limits interest to the period after a return is filed in "processable form." The 45-day no-interest period begins then. Interest on a carryback would be computed from the date the claim for a refund is filed.

Those changes are intended to keep taxpayers from delaying refund claims when the interest rate on refunds is higher than market rates. The Chamber says it won't work, since taxpayers could still file a return for the loss year by the original due date but delay filing the carryback claim.

The Chamber also objects to the vagueness of the term "in processable form" and to the added costs that the changes would impose on businesses with especially complex tax returns.

Retirement income. Both bills require withholding on pensions and other forms of retirement income unless the recipient elects otherwise.

Under S. 2198, those wishing to opt out would have to do so every year. H.R. 6300 increases from 10 percent to 15 percent the excise tax on premature distributions from an Individual Retirement Account, Keogh plan or accumulated deductible employe contributions to a pension plan.

The Chamber says the increased excise tax appears to be a revenue-raising measure rather than something intended to increase compliance, and it should therefore be subject to separate hearings. The Chamber also suggests that if withholding is justified at all, an exemption election should be allowed to remain in force until withdrawn by the income recipient, as in H.R. 6300.

Foreign transactions. H.R. 6300 would prohibit later use in court of material documenting foreign transactions if the material had not been produced within 90 days of an IRS request. An exception could be granted if the delay were due to "reasonable cause," but violation of foreign law would not constitute such cause.

IRS says the provision is necessary to prevent taxpayers from deliberately withholding relevant information until a trial is in progress, leaving the government insufficient time to prepare a response.

The Chamber responds that both IRS and the courts already have sufficient powers to surmount such abuses, but if a change is necessary, foreign law should be considered a mitigating factor under some circumstances.

The Senate Finance Committee incorporated the features of S. 2198 into an omnibus bill embodying the changes in spending and taxation mandated in the fiscal 1983 budget. The committee also approved a 10 percent withholding tax on payment of dividends and interest and a new reporting requirement to be imposed on payors. The House Ways and Means Committee is awaiting final Senate action before proceeding with its own markup, which may come this month.

Experienced observers doubt that the business community will have much success in modifying the objectionable features of this legislation. Says Feffer: "Many of the provisions will pass. There's a groundswell of political support for a crackdown on evasion."

There's another reason, too. Congress needs the money. □

—Barry Crickmer

The Tax Gap

The Treasury Department figures its 1981 receipts were short by $93.3 billion to $97 billion. Below are the sources of that tax gap. Some figures are preliminary, and items don't all add up to the totals because of rounding.

	Billions of Dollars
Legal sector	
Total individual income tax shortage	$83.3
Nonfilers	4.9
Total filed returns	78.4
Underreported income	66.1
Wages	2.5
Tips	2.3
Dividends	3.6
Interest	4.1
Capital gains	9.1
Nonfarm business	26.2
Farm business	1.4
Pensions	2.8
Rents	1.5
Royalties	1.3
Partnerships	5.5
Estates and trusts	0.5
Small business corporations	1.7
State income tax refunds	0.4
Alimony	0.1
Other	3.1
Overstated expenses, deductions, credits	12.3
Corporate tax returns	3.9
Illegal sector	
Drugs	4.5–8.1
Gambling	0.6–1.2
Prostitution	0.4–1.2

Source: Internal Revenue Service

SBA: Confronting Its Own Problems

The new head of the Small Business Administration wants to change the agency's image of lacking enough concern for its constituency.

By Michael Thoryn

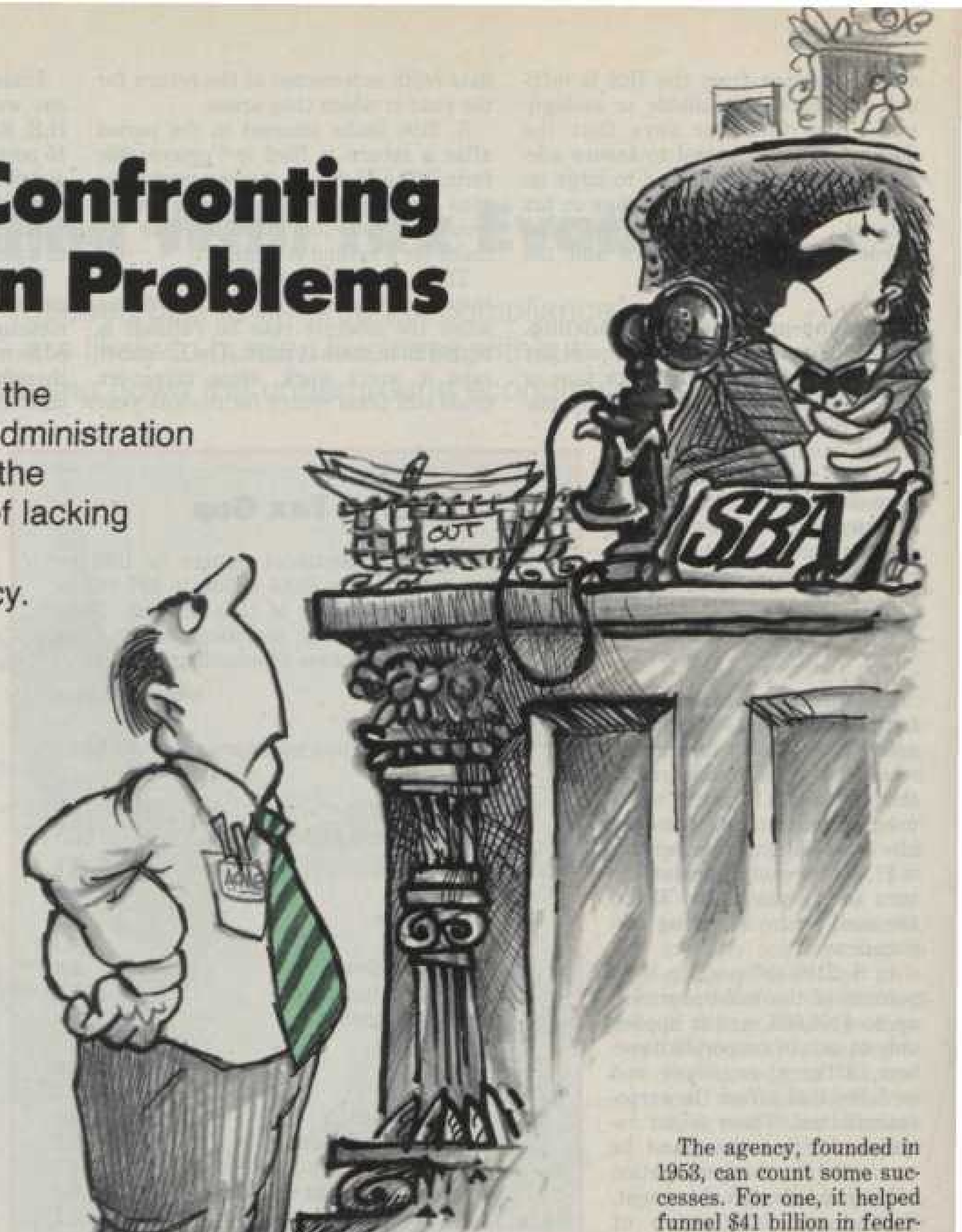


ILLUSTRATION WILLIAM COULTER

THE Small Business Administration would like to be perceived as that friendly federal agency ever willing to lend a hand to the struggling little entrepreneur.

But even the SBA's most ardent supporters concede that it is a troubled agency.

It has had six administrators in the past 12 years. The last one quit under fire after only 11 months.

SBA programs are regularly assailed in Congress as inadequate, inefficient and, in some cases, tainted by corruption.

In what is probably the most damaging verdict, many small business people themselves think the agency set up to help them is irrelevant to the real-world challenges involved in running a business.

The new administrator, James C. Sanders, 55, recognizes the problems. "The task is to give the SBA new vitality," he says. "If the agency remains static amid changing times and major challenges, it will lose its reason to exist."

Sanders, who sold his interest in an insurance brokerage before coming to Washington, adds, "I would not have accepted this job to merely preside over the agency's demise."

He and the agency's 4,400 full-time employes face a tough task. Small business people contacted by NATION'S BUSINESS tend to view the SBA as a loan bureau that doesn't make many loans. In addition, as Sanders acknowledged at his confirmation hearing in March, "the SBA has been widely perceived as not having adequately defended or advocated for its constituency."

The agency, founded in 1953, can count some successes. For one, it helped funnel $41 billion in federal government contracts to small business in fiscal 1981.

Another: SBA's guaranteed loan program, which aids business people who otherwise couldn't get loans, has a relatively low default rate of less than 7 percent. Some 22,300 guaranteed loans totaling about $3 billion were made last year.

And the SBA's Office of Advocacy, established by a 1976 law, has been monitoring the Regulatory Flexibility Act, pushing reluctant federal agencies to consider the regulatory burden on small business in their rulemaking.

SANDERS IS NOW concentrating on the management assistance division, where he was associate administrator for seven months before being tapped to succeed Michael Cardenas. One major problem, according to a survey by the House Small Business Com-

mittee, is that only about 65 percent of agency personnel are in the field delivering services to small businesses. To counteract the top-heavy bureaucracy at the central office, Sanders will deploy manpower to field offices and delegate authority. "The emphasis has to be more on hands-on delivery to the small business community and less on staff and support work, which really doesn't deliver anything," he says.

The management assistance effort will be augmented by "leveraging the resources of the private sector"—cooperating with chambers of commerce, other business groups, and state and local governments. Already under way: a program of free counseling to small businesses, offered by members of the National Society of Public Accountants.

While Sanders labors to revive the SBA, some influential people think the agency is past saving, at least in its present form. Most harsh has been Sen. William Proxmire (D-Wis.). When he introduced a bill to abolish the SBA in 1979, Proxmire said, "The SBA has a history of political favoritism, bad judgments and biased decisions. It has been a repository of patronage and scandals. It has helped only a minute number of small businesses. Since the President, Congress, and the people want to cut the budget, the SBA, which has lost its way and outlived its usefulness, is the place to start."


PHOTOS: RICK BLOOM

SBA Administrator James C. Sanders says he wants his agency to serve small business people in their home areas.

MEMBERS of the Louisville (Ky.) Area Chamber of Commerce were no less firm when last year they voted overwhelmingly in a survey to eliminate the agency. "It's not worth what it's costing," says John Sawyer, chairman emeritus of the board of Erdmann Corporation, a wholesale industrial supply firm, and former head of the chamber's small business steering committee. "The SBA is just another bureauracy—you stand in line to get your goodies."

Bill Nourse, president of Brookmeade Hardware & Supply Company, Nashville, and a member of the U.S. Chamber Council of Small Business, thinks the SBA should be pared to just two programs, advocacy and guaranteed loans. Management assistance belongs in the private sector, he says. "I don't think a small business person who really needs help will go to the government. When I need help, I turn to other business people for advice," Nourse says.

"The SBA is being streamlined, but it will take a long time for small business to get the message," says Carolyn Gaudry, co-owner of Carbon Dioxide, Inc., Portland, Ore., which sells and services firefighting equipment. Small business owners in Portland can get advice from other business owners through a hot line run by the local chamber of commerce, she notes.

John Sloan, president of First Tennessee Bank in Nashville, has an insider's view of the SBA. "The SBA has real problems and hasn't cured them all," says Sloan, who chairs the SBA National Advisory Council and was mentioned as a candidate for administrator after President Reagan took office. But Sloan is enthusiastic about Sanders' management abilities and his plans to refocus the agency.

As chairman of the Senate Small Business Committee, Lowell P. Weicker, Jr. (R-Conn.) has also examined the SBA closely. Weicker isn't pleased. One of the reasons the SBA exists is that small business has unique problems, the senator says. "Big business can handle high interest rates, for example, while small businesses go under." What's needed? "The small business community has simply had a caretaker when what it needs is a fighter."

The agency will have to do its fighting with less money. Citing the overall budget squeeze and a desire to limit federal intervention in credit markets, the administration has proposed a business loan spending level of \$2.44 billion for fiscal 1983, compared with \$2.96 billion this year and \$3.4 billion last year. Assistance to minority small business holds at \$492 million; the Office of Advocacy gets a slight increase.

The farm disaster loan program is being shifted to the Farmers Home Administration in the Agriculture Department—partly because it was mismanaged. The SBA inspector general disclosed last year that millions of dollars earmarked for crop replacement or debt repayment were used for refurbishing homes, investing and other purposes unrelated to farm disasters.

The direct loan program, in which the

SBA lends its own funds to disadvantaged businesses, ends this year. The default rate is at least 38 percent, and the agency faces losses of more than $500 million on loans made from 1970 to 1978. Taylor C. Larimore, an agency loan officer based in the Miami district office, told the Senate Small Business Committee last fall that direct loan losses were a "disgrace."

Each application considered, he said, "has already been analyzed and turned down by the businessman's own bank. ... How can the SBA be expected to make a better credit judgment than the businessman's banker—the banker who knows his customer, the neighborhood and the competition much better than anyone in SBA?"

Another controversy, over the 8a government procurement set-aside program for minority contractors, continues to simmer. The program has 2,000 firms on its rolls, and in its 14 years, only about 170 have "graduated" to compete on the unprotected open market.

Most minority business owners in 8a say they don't want to graduate because they haven't developed the skills to make it on their own. In response, the Commerce Department's Minority Business Development Agency plans to open 100 business development centers to provide the information on financing, marketing, and private and government contracts that minority firms need "to thrive and expand."

The MBDA centers will charge modest fees: $2.50 an hour for clients with sales of under $500,000 and $6.25 an hour for firms with higher sales.

Companies that cannot afford to pay the fee can apply for a waiver, but MBDA chief Victor M. Rivera says the inability to pay such a small amount should "make you wonder" about the firm's viability.

THE SBA has never had much capital clout. It isn't a cabinet agency, so its views and activities don't receive much White House attention—except when disclosures of mismanagement turn everyone's head. But Sanders has made a breakthrough: His request to be included in the workings of the Cabinet Council of Economic Affairs was recently granted. "I don't have a role in everything they discuss," Sanders says, "but I can attend when the subject is relevant to small business."

Perhaps the SBA's most effective unit is its 80-employe Office of Advocacy, headed by Chief Counsel Frank S. Swain.

Of his role as spokesman for small business both inside government and around the country, Swain says, "Advocacy is the one part of the SBA that best serves the entire small business community. Whether the subject is taxes, regulation, innovation or any other legislative issue, my first priority is to have small business effectively involved in policy decisions."

Advocacy also serves as an ombudsman for small businesses with individual problems concerning the federal government. Swain's office is developing a small business data base to plug small business into top-level economic planning, since up till now decision makers haven't been able to gauge the likely result of policies on small firms.

The data problem was carefully examined in Advocacy's report, *Small Business and Competition*, a major part of the first presidential report on the state of small business. According to the SBA unit's analysis, issued in March, "adequate statistics are collected on the small number of large corporations but not on the large number of small businesses."

Swain has taken legislative positions independent of the administration. "I look on this office as the in-house lobbyist for small business," he explains. Swain worked for passage of the Prompt Payment Act even though, as he says, "the administration was slow to get on the bandwagon." The act, which requires federal agencies to pay a bill within 45 days or pay interest from day 31, takes effect in October. "Many small firms contacted the SBA about late payments from the government," says Swain, "and we did something about it."

THOUGH PLEASED with Advocacy's accomplishments in his first year as chief advocate, Swain acknowledges agency difficulties.

"The SBA owes itself, Congress and its constituency a re-examination of our money-tight programs," says Swain, "and a determination of how we can best use the resources we have. We haven't reached our potential."

Indeed, Congress shows signs of losing patience with SBA program failures. At a recent House Small Business Committee hearing on minority aid programs, Rep. John P. Hiler (R-Ind.) told Sanders, "Something has to be done on a crash basis. You've inherited a deep swamp to wade through."

Sanders insists that accomplishments will show up soon. "In a year we would like to be well down the road to improving our management assistance system and getting results from training field personnel in the hard skills of lending and portfolio management."

And more: "We have a big ear. We want individual businesses and business groups to know they have a friend in the SBA," Sanders says. He's also a realist: "I'm not going to pretend we can accomplish miracles." □

The SBA's New Chief

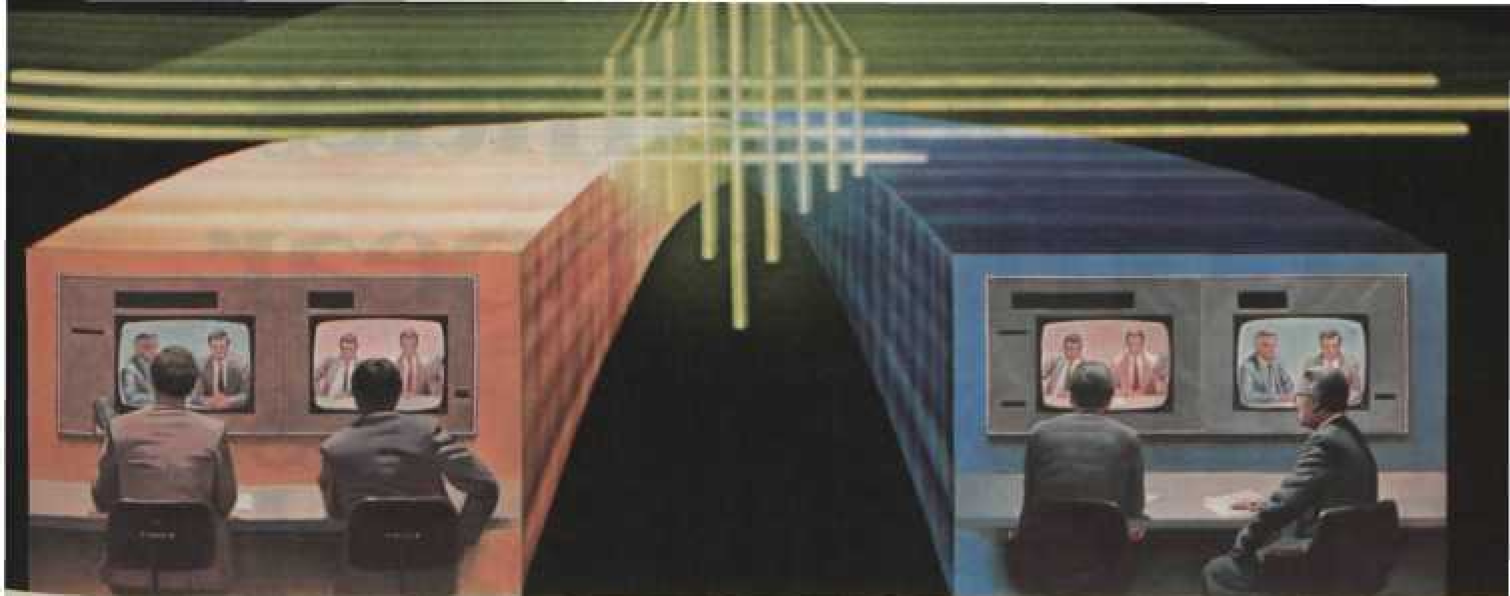
James C. Sanders, the SBA's 14th administrator, is an experienced small business person who has always been involved in organizing and selling ideas.

After early jobs as a civil engineer and an insurance broker, he cofounded the insurance partnership of Sanders & Sullivan in 1951 in San Jose, Calif. In following years he served on the California State Republican Central Committee and the State United Republican Finance Committee.

In 1979, when Sanders & Sullivan merged with an international insurance broker, his firm was the largest independent insurance broker in Santa Clara County.

Associates describe the administrator as unruffled, professional, energetic and an excellent testifier at congressional hearings.

He'll need the energy. Sanders' current weekday schedule begins at 7:30 a.m. and continues through 7:30 p.m. ("longer on the road"), plus part days on Saturday.



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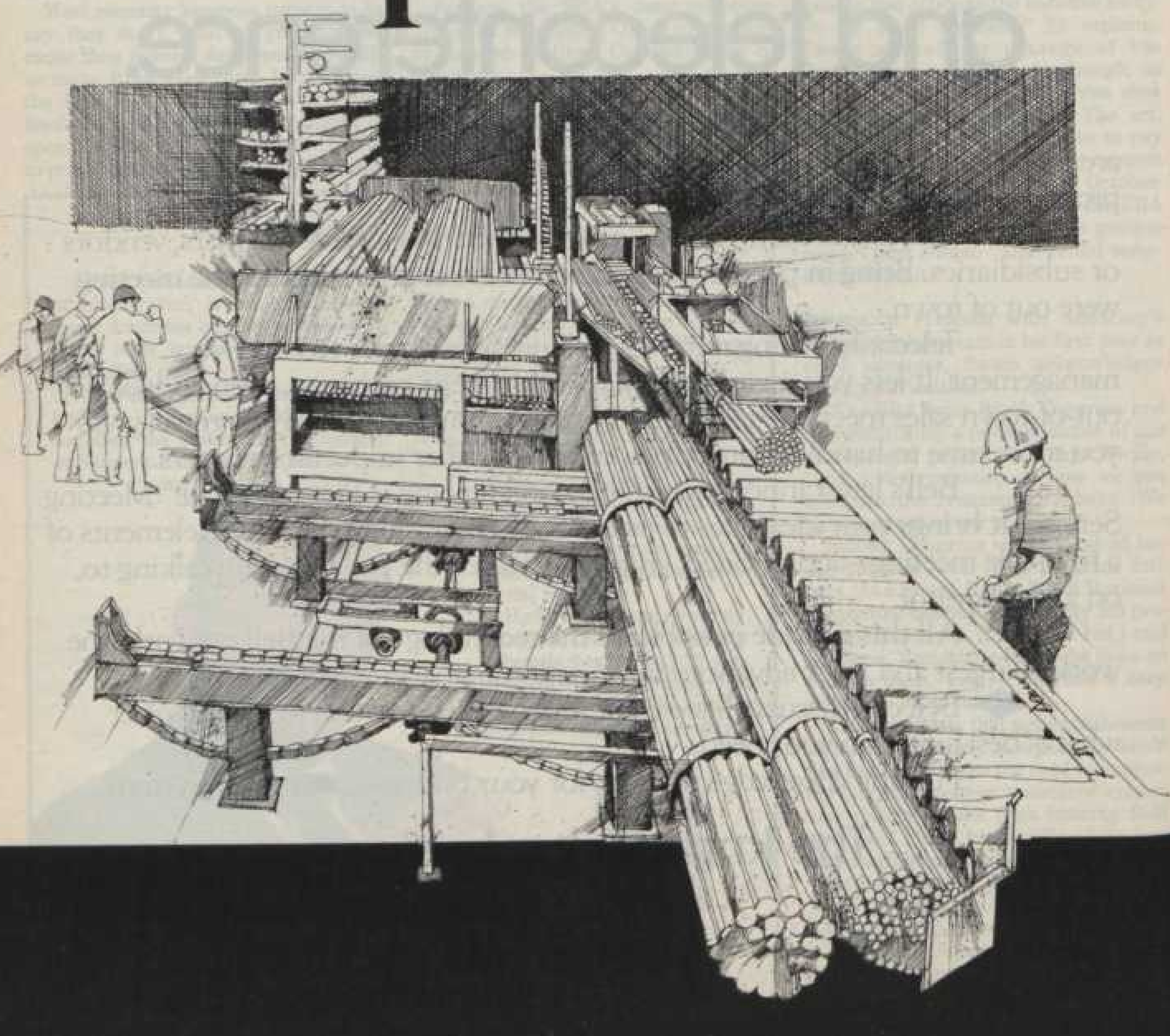

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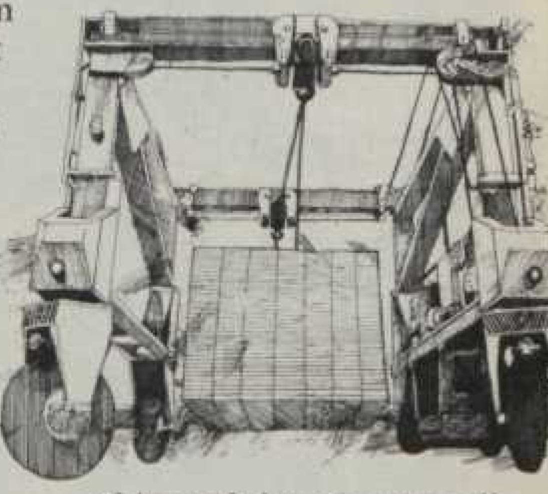

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LESSONS OF LEADERSHIP

Fainthearted? Not "Mr. Chicken"

Frank Perdue has had to take chances to get where he is. He has also worked hard—and smart.

By Grover Heiman

LAST SPRING in a crowded elevator in a Baltimore hotel, Franklin Parsons Perdue, the tall, lean chairman and chief executive officer of Perdue Farms, Inc., Salisbury, Md., saw a look of recognition rush over a fellow rider's face.

"I know you from someplace," the man said.

Perdue, 62, replied: "Tom Harmon. All-American at Michigan in 1939 and 1940. But you probably think I'm that darned chicken man who does the television commercials. I'm getting tired of being confused with that guy."

Just before the elevator reached the lobby, the man turned around and asked: "Are you really Tom Harmon?"

The folksy chicken magnate becomes a suave host in a television commercial for his company's Cornish hens.

Perdue, who vaguely resembles the football player and sports announcer, smiled and shook his head. "Nah, I'm that darned chicken man."

Recognition—of his true identity—is something Perdue often gets from strangers. People wave and call out, "Hey, Mr. Chicken!"

Perdue is happy to hear the greeting. Recognition is good for his business, which involves raising and processing 260 million chickens annually.

In the 14 years since the firm bought its first processing plant on the tristate Delmarva Peninsula, which separates the Atlantic Ocean from the Chesapeake Bay, growth has been steady. The work force has expanded from 400 to 6,700, making Perdue Farms the largest single employer on the peninsula and one of the nation's 50 largest privately held corporations. It owns integrated poultry raising and processing complexes not only in Delaware, Maryland and Virginia but also in North Carolina.

Such complexes control the entire life of the chicken, from egg to retailer. Each week 5 million broilers, roasters and Cornish game hens move through Perdue processing plants and are rushed to markets in refrigerated Perdue trucks.

Sales in the fiscal year that ended last March were $434 million, and this year Perdue expects to show a 25 percent growth in processing. The firm, which ranks third in the industry in processing, produces 5 percent of the birds, as Perdue calls them, that reach the table in restaurants and homes. The company's fortunes are so closely allied to corn and soybeans—it uses over a million tons of feed annually—that it has a seat on the Chicago Board of Trade.

Frank Perdue was not always so devoted to chickens, although they have been a part of his entire life. He grew up in a two-story white house on a small farm 3 miles east of Salisbury. Today his firm's modest, austere headquarters is across the road from the farmhouse, which is occupied by a Perdue employe; the farm is now used as a hatchery.

His parents were Arthur Perdue, a local agent for the Adams Express Co. (later to be known as American Railway Express) and Pearl Parsons from nearby Parsonsburg. She was attracted to Arthur because he wore a uniform—and she had pledged to herself that she wouldn't marry a farmer. But not long after the marriage her husband, noting that a number of local farmers were profitably shipping eggs to New York City, decided he would get into that business himself and bought 50 laying hens for $5.

By the time their only child was born, Arthur Perdue was full-time in the egg business. Frank grew up in the company of chickens. When he was 10, his father launched him as an entrepreneur, giving him 50 culls—the rejects—and a shed of his own.

"To my father's surprise, and to

mine, my culls outlaid his chickens," Frank Perdue says. "We couldn't figure it out; they got the same feed. I learned years later that there is indeed a pecking order among chickens, but before that I had concluded that the larger the pen, the happier the chicken."

HIS OWN FLOCK did so well that young Frank was clearing about $20 a month, which made him rather well off during the Depression. By the time he finished high school, however, he was sick of eggs, chickens and chicken coops that needed daily cleaning and hot summers in cornfields. He enrolled at Salisbury State, a teachers' college, with a hankering to be a big-league baseball player.

"I was the first one out for practice and the last to leave. I got to play some, but I couldn't hit well enough to think of making the big leagues. By the time I was finishing my sophomore year, I realized I didn't want to be a teacher. And rather remarkably, I saw that in a couple of years my father had smartened up considerably and that the chicken business wasn't so bad."

So Frank Perdue went to work for his father, a frugal man who resoled his shoes with half soles from the five-and-dime and drove to town only once a week when gasoline was 10 cents a gallon. Ten years later 30-year-old Frank was made president of the firm.

"My father had probably decided by that time that I wasn't going to destroy the business, but it was still 10 more years before he agreed to borrow money for expansion. For 41 years he had expanded only when he could pay with cash—his cash. I think his frugality stemmed from the memory of his own father, who finally paid off all his debts when he was an old man. My father never forgot that."

The Perdues focused on egg production until 1940, the year they started contracting with farmers to raise broilers. Today Perdue Farms counts more than 1,500 contract growers, who rear Perdue chicks with Perdue feed in houses built to Perdue specifications. Perdue representatives regularly visit the contractors to check on the health and growth of the birds and ventilation and space in the coops.

Feed became a major part of the business. Initially, Perdue handled commercial products, but by 1953 he had begun mixing his own feed and making deliveries with a 15-truck fleet (today there are 1,500 vehicles of all types).

PHOTOS: STEVE UZZELL

Quality control at Perdue Farms ranges from examining chicks to overseeing delivery to retailers.

Continuing research in company laboratories is key to Perdue's goal: growing the best chickens in America.

"Much to my amazement, analysis showed that my feed mixture was superior to the top-quality commercial feed I was handling," he says. "So we built a feed mill in 1958. That was a red-letter day in the history of the company because it gave the farmers confidence in us."

Not long after that Frank Perdue began thinking of further expansion. The poultry industry on the Delmarva Peninsula was growing dramatically as chicken increased in popularity as a food—high protein at comparatively modest cost. More and more farmers began raising soybeans, a key ingredient in chicken feed. There was a single soybean-processing plant on the peninsula, but there were enough beans for another plant. With some reservations Perdue approached his father about the project. They would have to borrow money—slightly more than half a million dollars.

Frank Perdue got his start as a master salesman in dealing with his conservative father, which meant having his facts straight and his arguments convincing. He succeeded. Perdue went to the banks for the first time and got a five-year loan to build a soybean-processing plant. But two years later he found himself in Washington arguing with officials of the Area Redevelopment Administration, a Commerce Department agency. A group of Maryland businessmen who wanted to build a rival plant had applied to this forerunner of the Economic Development Administration for a 25-year loan at 3 percent interest. "We were paying the prevailing interest, and a deal like that meant the federal government would be giving our competitors $50,000," Frank Perdue recalls angrily.

CONGRESS, he argued, hadn't intended the federal government to lend at such a low rate unless money couldn't be borrowed by conventional means. ARA bureaucrats were not sympathetic, so Perdue headed for Capitol Hill to make his case. Month after month passed, but he doggedly talked to members of Congress. Finally a subcommittee became interested and held hearings. It rendered an interpretation: Congress hadn't intended that such loans be made. The ARA beat a hasty retreat, and the loan fell through.

"I learned from that," Frank Perdue says. "Democracy will work. But sometimes you have to work like the devil to make it work."

By 1968 the firm was at a crossroads. It was selling 800,000 broilers a week to

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processors. The industry in those days was fragmented; only in Maine was there any form of integrated production. Perdue concluded that integration was the answer, and the firm bought a processing plant from Swift near downtown Salisbury.

The next hurdle was marketing. Frank Perdue hit the trail for the lucrative New York City market. He hired an advertising agency and spent $30,000 in a year on radio spots. In 1969 he doubled the budget and suggested television. The agency talked him out of it. The following year, with a $120,000 ad budget, the first TV ad for Perdue-brand chicken was on the air, but Perdue was dissatisfied. After a long search he hired the small firm of Scali, McCabe & Sloves, which urged him to go more heavily into television. The budget that year was $250,000. Currently the budget is up in the millions—1 cent a pound is allocated to advertising.

The agency suggested that Frank Perdue do the commercials. "Wait a minute," said Perdue, whose voice is sometimes squeaky and jumps an octave on the last word in a sentence. "I've never done anything like this before. I never was in a school play or took dramatics."

He was told he would do fine. No acting would be needed—the commercials would feature Frank Perdue.

A crew came to Salisbury to film the first commercial. The setting was a riverbank with Perdue ostensibly having a picnic under a willow tree. After extolling the virtues of tender Perdue birds, Perdue was to take a bite of a drumstick. The crew brought chicken from a nearby carryout. After numerous retakes, Perdue tired of cold fried chicken. A fresh bucket of drumsticks was brought in. They shot the final take. The camera stopped after Frank took a bite of hot chicken. But the sound was still on to record his incredulous "Hey, that's good!"

"They took that line and used it as a carryover," Perdue says. "The commercial won prizes that year for the best commercial under 60 seconds. Since then I've done about 75 television commercials, and this has established us in the public's mind. We have won countless awards."

IN NEW YORK CITY, where Perdue now has over 30 percent of the market, he is sometimes mistaken for Mayor Edward Koch. A recent *Wall Street Journal* article noted that Koch looks a lot like Frank Perdue.

Chicken lovers in New York, Boston, Philadelphia, Baltimore, Washington and Richmond are familiar with the television pitch that concludes, "It takes a tough man to make a tender chicken." They pay a premium for what the commercials insist is a quality bird.

"I have probably six or seven times more quality-control people than anyone else," Perdue says. What does this accomplish? "Consistency," he says. "That is what quality is all about." Providing a quality product means controlling all aspects of the chicken through its relatively short life cycle—49 days for broilers, 58 days for larger birds.

But the story doesn't end there in this highly competitive industry. Both Frank Perdue and President Don Mabe emphasize the importance of fully integrated operations to profits, which average between 1 and 2 cents a pound before taxes. So, like other processors,

"I want the company to grow, but I want my people to be comfortable in that growth. You can grow too fast."

the company uses everything but the cluck. Heads, feet, entrails and meat scraps are hauled by Perdue trucks to the company's rendering plants, where they are cooked and reduced to meal and fat—which is fed to the chickens. Feathers, high in protein, are cooked and pelletized and sold to livestock feed producers.

Frank Perdue says his chickens eat a lot better than some people. His feed has 1,500 calories per pound; it takes 2 pounds of feed to produce 1 pound of chicken meat. The special blend is primarily yellow corn and soybean meal, plus other ingredients, including marigold petals. The yellow corn and the flower's xanthophyll account for Perdue chickens' yellow skin. "A pale chicken," Perdue says, "is not a healthy chicken."

Where does he go from here?

"I'm ambitious," Perdue says. "I want the company to grow, but I want my people to be comfortable in that growth. You can grow too fast."

He says he learned that lesson in the mid-60s when he expanded his contract raiser program. Chickens glutted the market, and "it was killing us." That was one factor that prompted Perdue to buy processing plants.

Whether the firm grows larger or not, Frank Perdue will always have an obsession: "To grow the best chickens in America. That's my thing."

This superchicken is well on its way. For over 10 years the original combina-


J M M - A

tion of White Rock and Cornish has grown more meaty and tender through genetics and nutrition. In each generation 10 percent of the finest are set aside as breeding stock. Perdue has endowed research at universities and has established his own research farms and laboratories.

"I've learned the hard way that if you are going to be successful in business, you must have people who know the business and have experience," he says. "And today you need experts."

On his staff are veterinarians, microbiologists and nutritionists who man a pathological lab, an analytical lab and a fat lab.

"I'm a firm believer in putting money into research," he says. "Without research I can't maintain my position in the industry."

GROWTH, SAYS PERDUE, has enabled his firm to attract top scientific and management talent, but he still puts a premium on work habits. And that means working long and hard.

Mabe confirms Perdue's penchant for long hours. Perdue used to regularly call him at 1 a.m. to tell him how things were going in the selling end.

"So I adjusted," Mabe says. "After supper I would set the alarm for 1 o'clock and take a nap until then."

Perdue acknowledges he has slowed down in recent years. "I think I've earned it," he says, recalling 15-hour days and seven-day weeks. To this day he gets by comfortably on three to four hours' sleep.

Long hours, however, are not enough, Perdue says. "You not only have to work hard, you have to work smart. You have to use your head and make your steps count. To be successful, you have to be thorough." And so he doubts he will ever retire. "Work is my avocation," he says.

When Perdue is not working, he likes to relax by playing tennis or soaking up the sun. He owns condominiums in Ocean City, Md., and St. Maarten in the Caribbean.

There are some forecasts that poultry will supplant beef as the major source of Americans' animal protein by 1990. Frank Perdue would like to be the provider of a chicken in every pot, but such growth cannot compromise his independence. He explains:

"Today, no buyer takes more than 5 percent of our output. I don't want anyone to have much more, say 20 percent. Then he could put the wood to me."

Perdue may be planning to put some form of the wood to others, however. In Queens, N.Y., he is now testing a Perdue Chicken Restaurant. □

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PHOTO: ROBERT BURGESS

Federal science policy under George A. Keyworth II, White House science adviser, emphasizes bolstering defense research and stimulating industrial innovation.

The New Climate For Science Programs

The top federal scientist is changing the priorities of his office, and industry could benefit.

By Tony Velocci

As PRESIDENTIAL science adviser, George A. Keyworth II faces such major challenges as finding ways to strengthen the competitiveness of American industry on the world market.

But he also has a broader goal—creating a different philosophical climate in which he and his colleagues in science can confront the complex problems they are expected to solve.

And that climate, unsurprisingly, appears to be very much like the one President Reagan envisions for the federal government in general.

Keyworth says such an environment is more conducive to the success of his mission—determining how to spur innovation and productivity in the private sector.

Keyworth, who is director of the Office of Science and Technology Policy as well as White House science adviser, reports that he—

- Favors an economic and regulatory climate that will encourage transfer of new technology from laboratory to industry.
- Is pushing for more federal spending on defense research, such as development of a missile air defense system.
- Plans to focus more on basic research instead of demonstration projects for the products and processes evolving from basic research.
- Is establishing a better system to assign priorities for allocating funds.

On the question of assigning priorities, Keyworth says that in the past "there was a tendency to add resources to the best research areas but not to take money away from less productive areas."

Dealing with the application of technology to specific problems confronting the country is, Keyworth concedes, somewhat of a change from his previous job—head of the physics division at the Los Alamos Scientific Laboratory. There, he recalls, his objective was simply the advancement of the broad frontiers of knowledge.

"I didn't understand," he says, "that we were advancing those frontiers to

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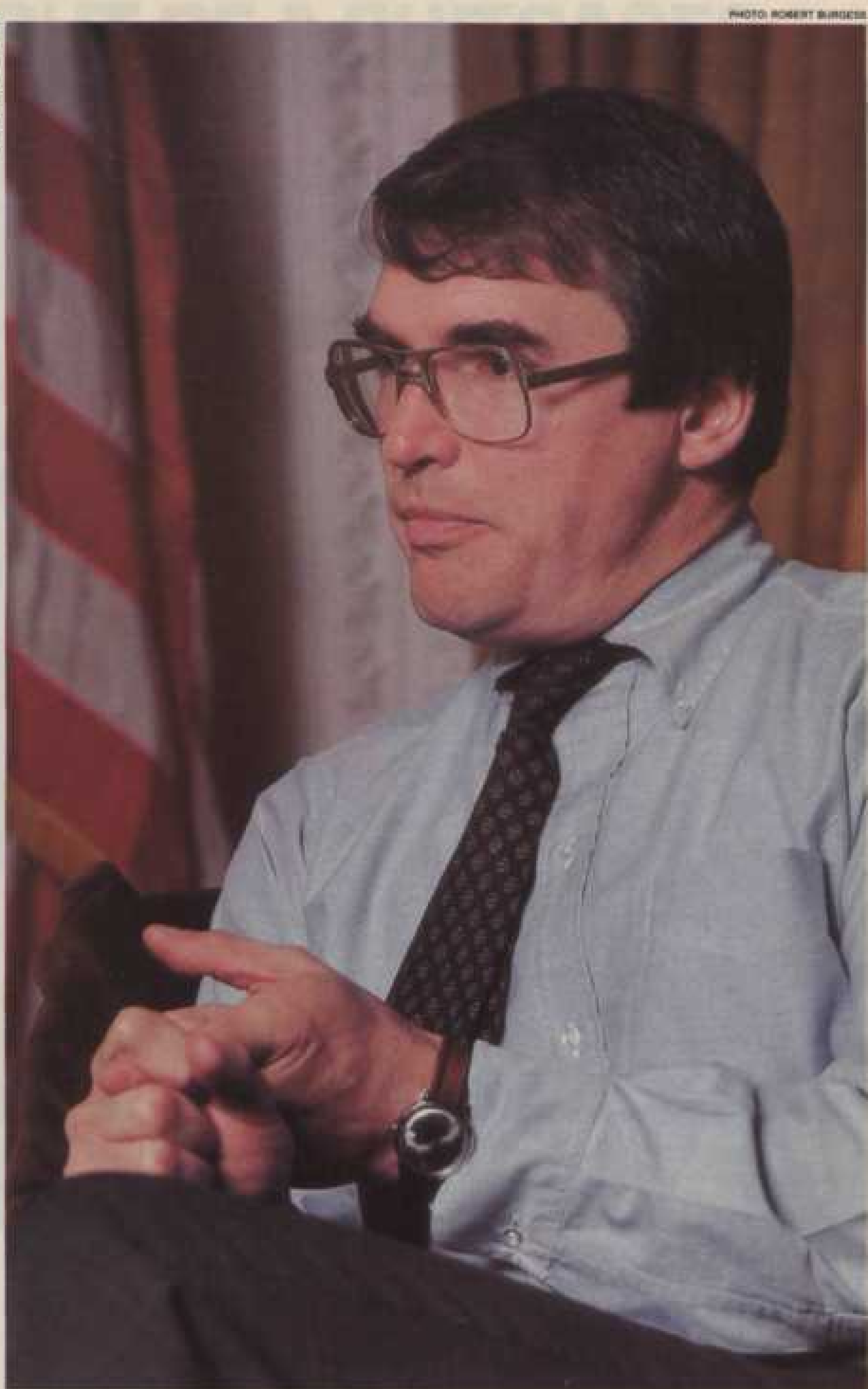

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And that climate, unsurprisingly, appears to be very much like the one President Reagan envisions for the federal government in general.

Keyworth says such an environment is more conducive to the success of his mission—determining how to spur innovation and productivity in the private sector.

Keyworth, who is director of the Office of Science and Technology Policy as well as White House science adviser, reports that he—

- Favors an economic and regulatory climate that will encourage transfer of new technology from laboratory to industry.
- Is pushing for more federal spending on defense research, such as development of a missile air defense system.
- Plans to focus more on basic research instead of demonstration projects for the products and processes evolving from basic research.
- Is establishing a better system to assign priorities for allocating funds.

On the question of assigning priorities, Keyworth says that in the past "there was a tendency to add resources to the best research areas but not to take money away from less productive areas."

Dealing with the application of technology to specific problems confronting the country is, Keyworth concedes, somewhat of a change from his previous job—head of the physics division at the Los Alamos Scientific Laboratory. There, he recalls, his objective was simply the advancement of the broad frontiers of knowledge.

"I didn't understand," he says, "that we were advancing those frontiers to

PHOTO: GENERAL ELECTRIC

Tax credits and other incentives are expected to spur industry to spend more on new technology. Here, a General Electric robot gets a TV camera for an "eye."

The major share of federal R&D spending in fiscal 1983 will help improve America's fighting edge with systems like this sight for an antitank missile.

PHOTO: HUGHES AIRCRAFT COMPANY

make America a better place in which to live."

One frontier on which he is active today involves high-technology companies, such as those producing semiconductors. "From exports to employment, these industries hold the greatest long-term promise for America," he says.

The problem, he explains, is the slow pace of innovation. He puts part of the blame on government disincentives, such as counterproductive regulations, and on economic uncertainty, which has discouraged long-term capital investment and risk taking.

Keyworth also points an accusing finger at the scientific community. "It tends to impede the transfer of knowledge from the lab to the marketplace," he says. "The attitude is that profits are a base incentive."

Industry, he continues, has not stressed market development. "We lag in developing and using the advanced processes by which competitive goods are produced," he says.

Business leaders respond that government, too, has a responsibility, and they assign three tasks to Keyworth's office. One is to interpret for the President the technological considerations that affect major issues, such as economic policy.

The second is to promote cooperation among government, industry and academia—something Keyworth says he is already doing. He regularly visits business leaders and invites them to Washington to obtain their input. "Keyworth is doing a good job of getting around and talking to people," says Edward E. David, president of Exxon Research & Engineering Company and science adviser to President Nixon.

THE THIRD, and perhaps most important, way government can help is to encourage innovation. "The problem of lagging productivity and innovation is not technological in origin," says George F. Mechlin, Westinghouse Electric Corporation's vice president of research and development. "The biggest deterrent is undernourished capital formation."

Working through the legislative and, to a lesser extent, judicial processes, the administration has already taken steps to stimulate investment in R&D and new plants. Keyworth had a hand in those measures, and that is how the Office of Science and Technology Policy most directly influences industry and its future.

An example: The Economic Recovery Tax Act of 1981 allows a 25 percent tax credit on incremental, noncapital research and development expenditures. Moreover, the law has cut the period for depreciation of all R&D equipment from 12 years to three. It also allows a higher deduction for research equipment donated by industry to universities.

If those incentives have not yet borne fruit, say administration and congressional sources, it's because interest rates have dampened their impact.

Another example: A new policy facilitates transfer of patents developed under federally sponsored research. This is expected to encourage interest in the application of ideas developed in nonprofit institutions.

Keyworth is promoting new legislation, now working its way through Congress. In the House, a bill that would set aside about 1 percent of the federal R&D budget for small business has the

support of more than 200 members. Called the Small Business Innovation Act, it is similar to a Senate bill passed last December.

Another area receiving attention is antitrust policy. Keyworth's goal here is to achieve more industrywide cooperative research. Bills encouraging joint R&D by U.S. high-technology firms were recently introduced in both houses of Congress and have strong bipartisan support.

"This legislation, if passed into law, would reduce duplicate research efforts and make better use of the nation's short supply of scientific talent and capital resources," says Peter F. McCloskey, president of the Electronic Industries Association.

Industry already accounts for nearly half of all R&D expenditures in the United States. "It is the most dynamic element in the nation's overall R&D effort," says Keyworth.

OVER THE PAST five years, industry's support for R&D has almost doubled, from $17.4 billion in 1976 to an estimated $33.9 billion in 1981. Federal investment in R&D has grown more slowly, from $19.9 billion to $32.9 billion, and in 1980 private-sector funding exceeded federal funding for the first time.

PHOTO: MASSACHUSETTS INSTITUTE OF TECHNOLOGY

MIT's Jerome B. Wiesner suspects the Office of Science and Technology Policy is not as effective as it should be.

The combined figures for 1981 represent 2.37 percent of the gross national product, up from 2.27 percent in 1976. This year's figures should show another rise.

Although the Office of Science and Technology Policy generally receives high marks, not everyone is convinced of its commitment to its mission.

"There has not been an obvious recognition at the White House that science is a major source of solutions to many problems, like reducing the cost of health care," charges Sen. Harrison Schmitt (R-N.M.), a former astronaut. And according to the Aerospace Industries Association of America, "The United States has no long-range policy for research and development, innovation and technology."

SUCH STATEMENTS irk Keyworth. "Federal science policy is very clear," he says. "Unfortunately, our policy of not intervening in the private sector is frequently perceived as the lack of a long-range R&D plan. Nothing could be further from the truth."

Besides, he points out, expenditures for basic research will grow from $5.3 billion in this fiscal year to $5.8 billion in fiscal '83. Total federal outlays for R&D will increase from $40.4 billion to $44.3 billion—a 9 percent jump.

The Office of Science and Technology Policy was created in 1975 at the recommendation of President Ford; the job of White House science adviser goes back to President Eisenhower. As science ad-

viser, Keyworth reports to the President. But as director of the Office of Science and Technology Policy, he is also accountable to Congress.

Although Keyworth has direct access to President Reagan on an as-needed basis, his normal channel of communication is through presidential counselor Edwin Meese, with whom he meets twice a week.

Reporting to Keyworth are a deputy and five assistant directors for five fields: international affairs, life sciences, energy and natural resources, basic research and science education, and space and national security.

In addition, a White House Science Council formed by Keyworth addresses specific issues that he assigns. Currently the council is assessing the future of the U.S. space program and the private sector's role in it. Other studies focus on aeronautical R&D and future military technologies.

Six of the council's 11 members are business leaders; its chairman is Solomon J. Buchsbaum, executive vice president of Bell Laboratories. The strong industry representation pleases business. Says Roland W. Schmitt, senior vice president of corporate R&D at General Electric, "They are addressing relevant and important issues."

How effective is the Office of Science and Technology Policy?

Not very, says Jerome B. Wiesner, president emeritus of the Massachusetts Institute of Technology and a science adviser to President Kennedy. Wiesner believes that the commonality of views in the Reagan administration, including Keyworth's office, diminishes effectiveness. "President Kennedy wanted the widest possible spectrum of opinions from which to choose, and I was frequently in the minority," he recalls. "Today, that's a way to get yourself fired."

But Wiesner seems to be in the minority still. Rep. Don Fuqua (D-Fla.), chairman of the House Committee on Science and Technology, speaks for many in Congress, business and academia when he gives Keyworth a vote of confidence:

"Keyworth has the credibility he needs to perform his job. The country is better off with the office. And it seems clear that its importance as a catalyst for the application of science and technology will only expand." □

Older and Wiser

George A. "Jay" Keyworth had no expectation of ever coming to Washington. His labor of love was pure science at Los Alamos, the prestigious government laboratory in New Mexico. But his appointment as director of the Office of Science and Technology Policy and science adviser at the White House has changed that. "I see this as a four-year commitment for which I am willing to sacrifice everything," he says.

After earning physics degrees from Yale and Duke, Keyworth joined Los Alamos in 1968 and within six years achieved a breakthrough in nuclear fission. He has received international recognition for his contributions in weapons physics. At Los Alamos he directed several hundred scientists whose work ranged from astrophysics to satellite-based verification of nuclear test-ban treaties.

Keyworth, 42, tells friends that he has aged 15 years since he came to Washington—but not because of the physical toll of his job. It's his new perspective on scientific inquiry that makes him feel older and wiser. "I've learned what's important to the country," he says, "the strengths and weaknesses of our government—and its effect on my life."

Why Unions Lose At Many Companies

AS A PORTER at the Ohio plant, drawing minimum wage and marginal benefits, he seemed a sure vote for organizing a union. Yet when the election was held, he voted no.

Asked why, he told how a company vice president always stopped to talk to him when touring the plant to ask about his family and about his boy in high school.

That's a story Harold Hoffman likes to tell his clients. Hoffman is an attorney with Grotta, Glassman & Hoffman, a New Jersey-based law firm specializing in labor relations for employers.

"The porter had nothing to lose by voting for a union," Hoffman says. "But he believed the company cared for him."

An argument might be made that if the company really did care, it should have boosted the porter's pay and benefits. Hoffman says that is missing the point of the story. The point, he tells clients, is "communicating—that's what it's all about."

Hoffman, who has been counseling management on employe relations for 20 years, is only one of a growing cadre of consultants espousing a line of alternating current between management and workers. The goal, quite bluntly, is to short-circuit unions, to keep organized labor from becoming an interlocutor in the affairs of one's company.

PHOTO: PAUL FETTERS

Better communication between management and employes is the best antidote to unions, says labor attorney Harold Hoffman.

Some large and successful firms got Hoffman's point long ago. IBM is a good example.

Since its founding in 1914, it has communicated so well that not one of its employes has ever carried a union card, says an IBM spokesman. And he can't recall any recent attempts to unionize the 207,000 U.S. employes of the giant corporation.

What is IBM's formula? The spokesman proudly reels off four main points:

"At IBM we have a belief in and a respect for the dignity of the individual. Second, we have a full-employment tradition: Since the Depression no one at IBM has lost an hour's work because of layoff.

"In addition, we think IBM's compensation and benefit plans can match anybody's in the industry.

"And then there is the emphasis on good two-way communication."

Few firms have more finely honed conduits for communication between management and employes than IBM.

The corporation encourages and schedules meetings between the two—one-on-one, by department, by division, whatever the situation calls for.

Every 18 months a survey ferrets out opinions of workers on company plans and policies.

Then there is the "Speak Up" program, a confidential channel that for 23 years has flowed with employes' written suggestions and criticisms. Each letter goes from employe to program coordinator to department manager; when it is acted upon, it makes the return trip so that the employe is satisfied that his memo got a hearing and, if worthy, action.

Thomas Watson, Sr., IBM's founder, would have approved. "Speak Up" is an extension of the "Open Door" policy that he inaugurated 68 years ago and that still functions. The door of every manager, even the chief executive officer, is open to any employe with a complaint.

One would think a CEO's office could get rather crowded some days in such a large corporation as IBM. But figures suggest that congestion is more likely in the office of the small company boss.

The figures come from William N. Cooke, chairman of the industrial relations program at Purdue University's Krannert Graduate School of Management. Cooke recently published a study of 8,000 union certification elections in 1979. It shows that in firms with fewer than 20 employes, about 56 percent of the workers voted for union representation, and the unions won 53 percent of elections.

But in groups of 100 to 499 workers, 42 percent voted for representation, and unions won only 27 percent of the elections.

What is Cooke's explanation? "Peer pressure ... group dynamics" are at work in the smaller companies, he spec-

ulates. In other words, according to labor consultants, instead of organizing workers into a company team, management has stood aside in many cases and permitted union leaders to organize a separate and opposing team.

Cooke's study revealed that some managers have discovered one technique to thwart union organizing: delay. "By delaying a union election, employers have been able to reduce the number of workers voting for union representation by 3 percent and the union's probability of winning by about 6 percent," he says. Postponing an election gives an employer more time to campaign actively against a union, according to Cooke.

"Employers also may beat unions to the punch and petition the National Labor Relations Board for an election," notes Cooke. "Employers do this if they believe the union may not yet have enough support from workers and will lose." The professor says the union lost in almost all of the employer-petitioned elections that he has studied.

BUT THERE ARE more obvious reasons that 80 percent of the work force in this country remains nonunion.

Ronald Berenbeim, senior research associate at the Conference Board, a nonprofit business research group in New York, cites the bread-and-butter issue. "Unions for years have limited their pitch to this issue [wages and benefits]," he says, "and as management more and more addresses this issue, the union's influence diminishes."

And as more employers pay competitive wages and offer competitive extra benefits, still another factor is being seized upon by management, according to Washington labor relations attorney Robert Thompson: Many workers have moved up in the world financially.

"A large chunk of labor now is a vast middle class and does not hold the same views as the labor leadership in this country," he says.

This middle class does, however, share many of management's concerns—taxes, inflation, government spending, high interest rates. Labor relations consultants to business are urging their clients to take advantage of this new philosophical alignment.

One means is bringing employes into the decision-making process. Motorola, the large electronics firm near Chicago, does that very well.

"Employes are encouraged to attend regular meetings of our participative management program," says Vice President Ralph Elsner, "to discuss ways to reduce costs and improve quality and delivery schedules to better serve our customers." Participants share any cost savings.

"It is not an abdication by management of all authority and responsibility for decisions," Elsner says. "It is not turning the show over to the workers. And it is not total democracy with votes taken before any decision can be implemented. But neither is it turning the screws to push workers to produce more."

True, participation in management is a relatively new role for most employes. That may explain in part Elsner's opinion that employe trust in management is difficult to attain.

"When management is stern, parental and authoritative, change is often viewed with distrust," he says. "Management needs to demonstrate its willingness to change and its ability to listen."

Like IBM, Motorola works hard at an open-door policy that enables employes to voice a grievance. The corporation also helps advance an employe's career by rewarding continued dedication and loyalty with job security and extra benefits.

As for the bread-and-butter issue, Motorola has stayed ahead of organized labor by paying its workers better wages than other firms in its market.

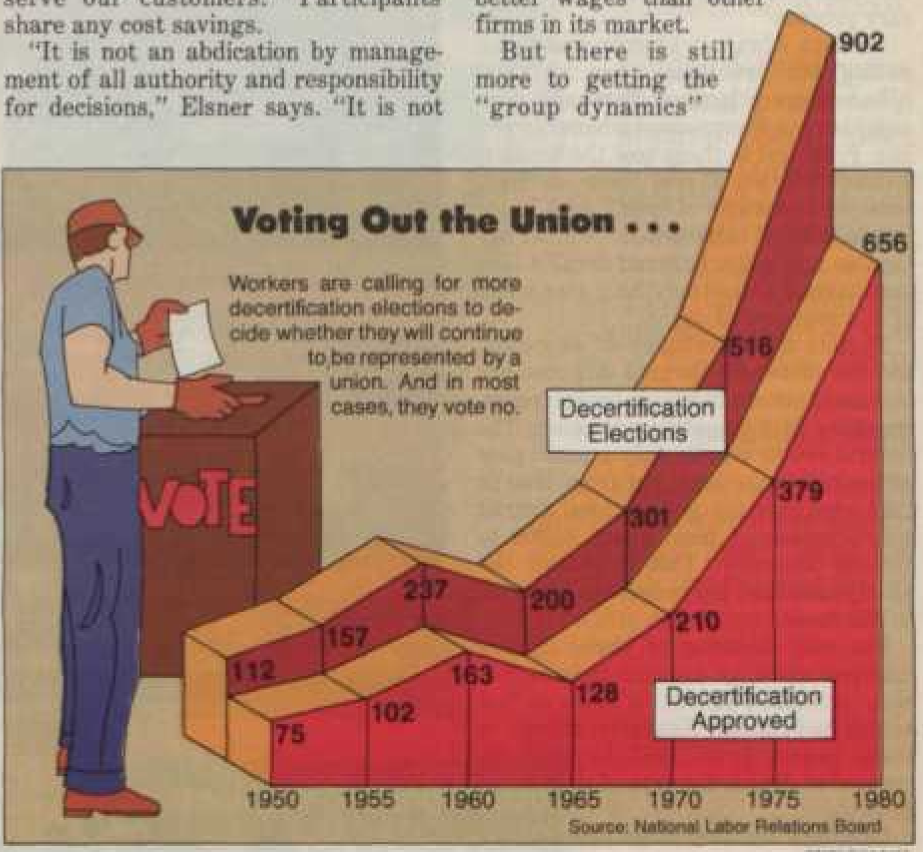
But there is still more to getting the "group dynamics" cited by researcher Cooke to favor management rather than unions, the experts say. A facet shows up in polls Motorola took to learn what its employes wanted from their jobs.

The results: first, full appreciation for work done; second, feeling a part of the company; third, understanding by management of personal problems.

Managers at Motorola and IBM—and at Federal Express, Hoffmann-La Roche, Texas Instruments and many other companies whose employes are not unionized—are not surprised by such poll results.

To them, the old saw remains starkly accurate: "Any company that gets a union needs a union." □

—Del Marth



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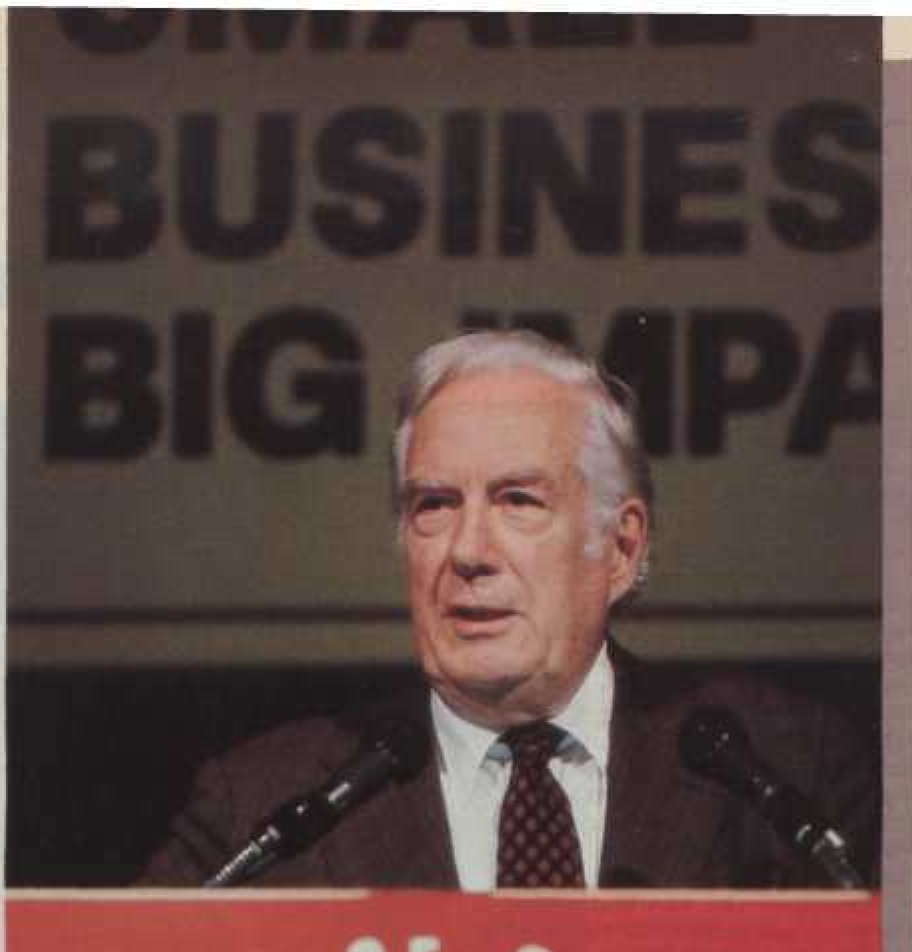

Arbitration, Not Litigation

The Chief Justice of the United States urges changes to reduce the costs and frustrations of the legal process.

By Warren E. Burger

IT IS IMPLICIT in our conception of justice that legal claims should be dealt with fairly, in the shortest possible time, at the least possible expense and with minimum stress on the participants in the dispute.

Yet the frustrations, delays and expense in dollars and human resources that often accompany disposal of disputes in the courts have led many observers to question whether our legal profession's traditional obligation to resolve conflicts is being fulfilled today. Too often, the delays and lack of finality in cases drain much of the value from otherwise acceptable judgments. Commercial litigation is particularly costly, forcing business executives and their staffs to transfer their normal creative and constructive drives into the time- and energy-draining adversary process.

Perhaps Abraham Lincoln was anticipating our problems when he said: "Discourage litigation. Persuade your neighbors to compromise whenever you can. Point out to them how the nominal winner is often a real loser—in fees, expense and waste of time." And Judge Learned Hand commented: "I must say that, as a litigant, I should dread a lawsuit beyond almost anything else short of sickness and of death."

Despite the drawbacks of litigation, the use of courts for civil disputes has increased dramatically in recent years, resulting in a litigation explosion. The federal courts handle only a small part of the total case load, yet from 1940 to 1981, civil case filings in federal district courts increased from about 35,000 to 180,000 annually. This increased the yearly case load per judgeship from 190 to 350 cases.

The real meaning of these figures emerges when we see that federal civil cases increased almost six times as fast as our population. Similarly, filings in state courts from 1967 to 1976 increased at double the rate of population growth.

Litigants are also more likely to appeal trial court decisions.

CLEARLY, THERE HAS been a rise in the litigious attitudes of Americans. Apart from the volume, cases have become increasingly complex, all too often requiring months or even years to resolve. In 1950 only 20 federal trials required more than 20 court days; by 1981 the number of such cases had increased ninefold.

These protracted cases not only deny opposing parties the benefits of a speedy resolution to their conflict, but they also enlarge the costs, tensions and delays facing all other litigants waiting for access to court. Inequities flowing from such delays are particularly acute if a litigant cannot recover interest on the award or if the interest

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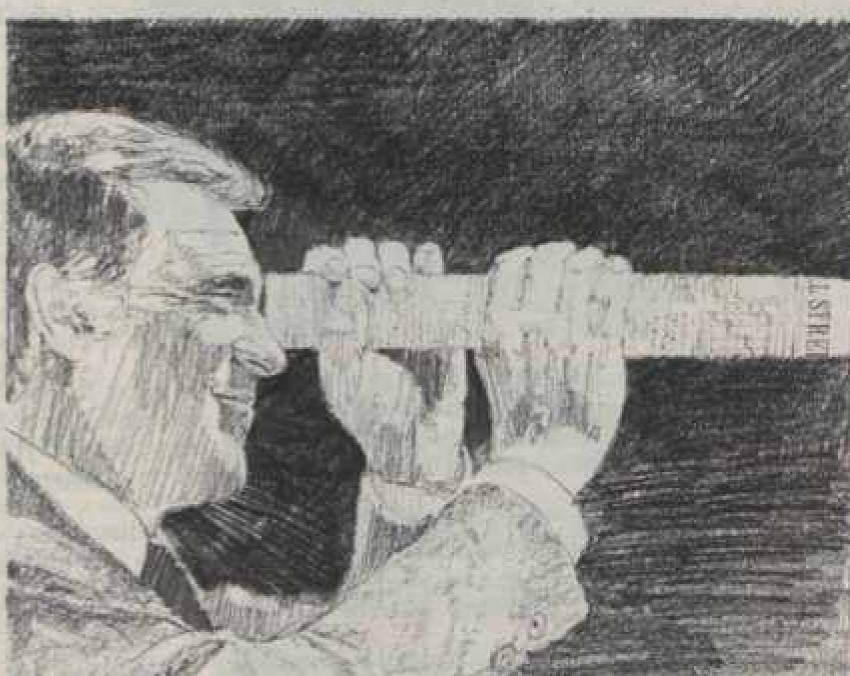
NB08/82

Is there a future for individual investors in America's stock market?

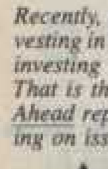
William Freund and Jude Wanniski voice their opinions



Recently, more individuals have been investing in the stock market, but they've been investing less. What will the future hold? That is the topic of the following Looking Ahead report — another in a series focusing on issues critical to business.

An Optimistic View

Dr. William C. Freund
Senior Vice President
and Chief Economist,
New York Stock Exchange



Is there a future for individual investors in America's stock market? A resounding *yes.*

But success depends in large part on the individual's perception of his relationship to the market. Too often an individual sees the market as an overwhelming or mysterious force run by huge institutions.

This attitude of "market as adversary" overshadows the very real financial and psychological benefits offered by individual involvement in the market.

Why is individual shareownership desirable? It gives each of us our own direct stake in our economic system. It works to diffuse economic power to help keep our competitive system responsive to the majority of the population. It helps unify "owners" and "workers" in the common goal of intensifying productivity growth for the economic good of all.

Boosting productivity

The last point is particularly significant. Currently, this country is in a productivity slump which impairs our ability to compete domestically and in world markets. Recent New York Stock Exchange studies indicate the importance of boosting productivity growth. And one way of accomplishing this is to eliminate the wall which now seems to exist between management and labor. A key to destroying the barrier is individual involvement in the market, for employees can then assume a direct equity interest in the companies they work for as well as American enterprise in general. They, in short, join management through their association in the market. The economy as a whole, as well as the individual investor, will be well served by such a move. The U.S. needs unprecedented amounts of new equity capital to help finance the renewal and modernization of its business plants and equipment. Through increased equity investments, individual investors can help launch a new era of capital formation, rising productivity, and real economic growth. If

that happens, millions of individuals should reap the rewards of investment in stock.

Toward this end, the New York Stock Exchange does everything in its power to assure that the rights of individual investors are at all times protected. For example, on the Exchange, an individual's order to buy or sell at a specific price has the right to participate in even the largest transactions by institutional investors. Through close regulation and surveillance of the marketplace, we do our best to see to it that nobody — individual or institution — trades on the basis of inside information.

Clearly, there is a need for the individual investor in the stock market. And more people are investing in stocks, especially at younger ages. That is a strong vote in favor of the proposition that there *is* a future for individual investors in America's stock market.

Strengthen Dollar First

Jude Wanniski
President, Polyconomics

Over the past decade, the stock market was a downright dangerous place for people to put their savings. A hundred dollars invested in stocks was worth, on average, only $54 nine years later after correcting for inflation. In the decade ahead, the stock market may become a delightful place to be, but only if our government changes its policy toward our American dollar.

The stock market, after all, is by far the best gauge of the health of the national economy. And the entire dollar economy, worldwide, got off the track a little more than ten years ago because of a drastic change in the government's policy toward our currency.

Specifically, President Nixon on August 15, 1971, ended the government guarantee that the dollar would be worth a specific amount of gold. The change was based on the notion that by devaluing our currency, we could buy fewer goods abroad and sell more American goods in the export market, thereby increasing the number of jobs for American workers.

The real effect was to damage the dollar as a standard of value. Its price, in real goods, has fluctuated dramatically, first with the worst inflation in our history, now with one of the most serious deflations. There has been an illusion of expansion, but it has been achieved only by forcing wives out of the home to work and by pulling students away from their books.

A dramatic turnabout

Only when our government restores the dollar's guarantee will we see real economic expansion and a rising standard of living. But when it happens, it will happen dramatically. With faith in the dollar restored, interest rates will fall to low levels and the economy will blossom with the return of long-term credit. The housing and automobile industries, which rely on the availability of credit, would lead the way in a buoyant economy and a buoyant stock market.

And yes, we need to get the *individual* investor back into the market, especially those willing to take the risks in developing new enterprises.

Buying stock is buying a piece of the future. And with the benefit of our hindsight, the future looks potentially bright. There has already been a major shift of attitude against tinkering with the dollar's value. And the government has now seen that the tax system cannot be used to punish productive effort and investment.

Much remains to be done. But when the reduction in tax rates is finally in place, and a sound dollar restored, the stock market will be a comfortable place for the American investor to be.

What Opinion Leaders Think

Reported by
Kenneth Schwartz
Vice President,
Opinion Research Corporation

In the eyes of the nation's opinion leaders, the individual investor's participation in stock market trading will decline or stay the same rather than increase.

The Opinion Research Corporation surveyed 500 opinion leaders in the worlds of business, media, academics, labor, government, and public interest groups to learn their views of the future of individual investors in the stock market. Interviews were conducted on behalf of The LTV Corporation during the month of February 1982.

The general outlook for participation by the individual investor is pessimistic — prediction of decreased participation is especially high among labor leaders (51%), public interest group leaders (46%), and academics (44%). Only business executives seem somewhat optimistic — 39% feel participation will increase, though as many as one in three feel it will do no better than stay the same.

Leaders who think individual trading will decrease were asked why. The prime reason was that other financial vehicles, such as pension, money market, and mutual funds are more attractive than the market to today's more sophisticated investors. Another important reason is general concern over economic conditions, inflation and stock market instability.

Institutional involvement thought positive

Opinion leaders as a group do not seem overly concerned about the growing dominance of stock market trading by institutional investors. Overall, in fact, 37% of those surveyed felt this institutional activity was "good" as opposed to 27% who termed it "bad". The main exception was the group of public interest group leaders: 43% felt institution involvement was a bad trend.

Leaders were asked their views on the effectiveness of recent tax law changes, designed to encourage individual investors. Their opinions were divided.

Those who think further changes in tax laws are needed think the two most significant incentives would be (1) eliminate or revise the capital gains tax and (2) eliminate double taxation of dividends.

How LTV Is Involved

Speaking for LTV,
Paul Thayer
Chairman of the Board
and Chief Executive Officer

The stock market. Is there a future in it for the individual investor? Apparently a great many individual investors think so. Today, one in every seven Americans is a stockholder. And almost half of those shareowners are in families with total annual income of $25,000 or less.

Millions of individuals in this country own stock in the companies for which they work. Through various employee stock purchase plans, they develop a direct financial involvement in the future of their companies and in the growth of our economy in general.

Individual involvement in the market is the very cornerstone of our democratic enterprise system. But is there a future in it for people who want to buy a stake in that system? There is if that system and the nation behind it are as strong as I believe them to be.

The stock market is an important economic barometer. A recovery in the market usually is the forerunner of recovery from a recession. Of equal importance, the stock market is a barometer of the national mood, reflecting the level of confidence people feel in the country.

At the moment, the nation is in evident economic turmoil. The stock market is reflecting this and participation by individual investors has correspondingly waned. In the short term, this is an understandable adjustment to present realities. For the long term, I believe that we can solve our problems — and emerge from the present turmoil stronger than ever.

This country has enormous resilience, a strong collective will and a demonstrated history of overcoming adversity. I believe we will become increasingly competitive internationally, more productive, and able to meet the difficult challenges that face us. I also believe that government, labor, and business will have to work in closer harmony than in the past to make this possible.

Given this latter development, we can look forward to a vibrant economy and to a stock market that will offer a promising future for the prudent, informed individual investor.

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rate allowed is much less than current market rates.

It seems obvious that we must tap the inventiveness and resourcefulness of the American business community to fashion and implement more effective means of resolving disputes.

We should subject judicial procedures to a cost-benefit analysis. This is now being done by the National Center for State Courts and the Federal Judicial Center. Another example is a study by the Rand Corporation's Institute for Civil Justice. It indicates that the average cost to taxpayers of a jury trial in one representative jurisdiction, excluding the cost of the court buildings and facilities, is roughly $8,000 per case—higher than the amount of the award in about 75 percent of civil trials examined in a comparable study. If this is correct, we need to ask ourselves whether it is wise to continue using taxpayers' money in this manner.

We also need to consider eliminating incentives for litigants to deliberately delay cases. Perhaps interest at market rates should be required on judgments for the period starting with the filing of a case and ending with payment of the judgment, and additional civil penalties should be assessed for dilatory tactics.

WE MUST, OF COURSE, be careful not to discriminate against the poor or take steps that would discourage their bringing meritorious claims to the courts. However, we must consider new means of structuring the overall costs of litigation so that litigants will make businesslike, cost-effective decisions before going to court. For example, we should consider whether the losing party in a case should have to pay some significant part of the prevailing party's expenses of the litigation.

We also need to move many kinds of cases from the adversary judicial system to administrative processes, as was done long ago with workers' injury cases. Cases involving divorce, child custody, adoptions, personal injury, landlord-tenant disputes and probate of estates are prime candidates for the administrative process, subject to some kind of judicial review. Other types of cases need to be disposed of by mediation or conciliation. Such approaches, designed to expedite the delivery of justice, cry out for the attention of business and the legal community. If the legal profession and the courts are to retain public confidence, we cannot continue to let disputes wait two, three or more years to be disposed of.

One course that could help relieve the growing backlogs in our courts—and frequently provide better solutions at less cost—is widespread use of the centuries-old process of arbitration. Arbitration offers advantages that are particularly important for the resolution of complex commercial disputes, including these:

- Parties can select arbitrators with special experience and knowledge in the area of dispute.
- Privately selected arbitrators can conduct all proceedings in a less stressful setting outside the courtroom.
- Confidentiality can be preserved where there is a valid need to protect trade secrets.
- Arbitration by skilled specialists can cope with complex business contracts, economic and accounting evidence, and financial statements.
- Skilled arbitrators can digest evidence on an agreed schedule, with heavy reliance on stipulated evidence and without the expensive panoply of the judicial process.
- Parties to arbitration can readily agree to preliminary procedures that can control, if not eliminate, such abuses as needless delay and probes for irrelevant information, which so often occur in judicial discovery.

> The notion that most people want black-robed judges, well-dressed lawyers and paneled courtrooms for the resolution of disputes is a myth. People with problems, like people with pain, want relief. . .

Given these advantages, executives can minimize headaches for themselves and the courts by requiring provisions for final and binding arbitration of disputes in commercial contracts.

The American Arbitration Association indicates that such voluntary use of arbitration has increased substantially in recent years. But its potential for resolving commercial disputes remains largely untapped.

In several states, arbitration is required for certain civil claims. They go to court only if one of the parties appeals the decision. Cases are being diverted from the courts this way in some areas of New York, California and Pennsylvania.

In Philadelphia, all civil cases involving disputes of less than $20,000 are referred to a three-lawyer panel for resolution. Primarily as a result of this program, Philadelphia's civil case backlog was reduced from an average of 31 months to 12 months over a three-year period. In the first five months of 1982, more than 80 percent of civil cases filed were disposed of through arbitration, and less than 4 percent of those cases resulted in further proceedings.

The notion that most people want black-robed judges, well-dressed lawyers and paneled courtrooms for the resolution of disputes is a myth. People with problems, like people with pain, want relief, and they want it as quickly and inexpensively as possible.

We must, however, be cautious in establishing arbitration procedures to ensure that they become a realistic alternative to courts rather than an additional step in an already prolonged and costly process. If a system of voluntary arbitration is to be truly effective, it should be final and binding.

ANYTHING LESS than final and binding arbitration should be accompanied by sanctions to discourage further appeal. For example, if the arbitration claimant fails to increase the award on appeal or in litigation by 15 percent, that claimant should be charged with all the costs of proceedings plus the opponent's attorney fees. A stern measure? Yes, but stern measures are needed.

Arbitration, without other necessary changes in the judicial process, is by no means a cure-all for the mushrooming case loads of the courts. It cannot displace the courts—for some claims, the courts are the only avenue to justice. But it can complement the judicial function, as it does in some countries.

In addition to working to increase the use of arbitration as an alternative to traditional litigation, judges, lawyers and the business community should undertake a comprehensive review of the whole litigation process to find more effective tools to handle cases within that framework. It is clear that neither the federal nor the state court systems are capable of handling all the burdens without a vast increase in the number of judges, clerks and administrators.

We have a duty to increase our legal system's effectiveness in working for the people, so that our courts once again become an avenue, rather than an obstacle, to justice. The American business community, which has achieved world pre-eminence by developing innovative techniques, must now be willing to consider new methods to remedy our nagging litigation problems. Perhaps executives should give different signals to their lawyers. □

To order reprints of this article, see page 42.

Rating the Candidates

The way major organizations evaluate voting records can have a big impact.

By John M. Eddinger

PHOTO: FRED WARD—BLACK STAR

Rep. Benjamin Rosenthal ranks dead last on a Chamber list but is tops with labor.

Campaign '82

PHOTO: DENNIS BRACK—BLACK STAR

Just the opposite: Sen. Paul Laxalt rates high with business but displeases labor.

THE LIBERAL BLOC in the U.S. Senate suffered a heavy blow when six of its members were defeated in the 1978 election. Other liberals heading into 1980 re-election battles quickly adopted a new strategy: a pullback from their forward positions in the liberal ranks.

The following year, a liberal group's ratings of nine senators formerly at the top of such listings fell significantly. The rating of Sen. Frank Church (D-Idaho), for example, dropped from 70 to 42, and that of Sen. Birch Bayh (D-Ind.) went from 85 to 63.

At the same time, many other members of Congress suddenly sought to boost their standing as supporters of business on major issues, and they cultivated conservative ratings.

Those incidents spotlight the growing concern of incumbent and would-be members of Congress over where voters place them on the liberal-conservative spectrum.

Measurements of political ideology are taken by trade associations, labor organizations, industries, individual companies, unions and interest groups of every kind.

On a national basis, the four most prominent rating systems are those of the U.S. Chamber of Commerce (covering business positions), AFL-CIO (labor), Americans for Constitutional Action (conservative) and Americans for Democratic Action (liberal).

Though specifics differ, each group basically identifies legislative issues of concern to its members, then rates members of Congress positively if their votes upheld its views, negatively if they did not.

A high mark from a major organization can bring endorsements from like-minded organizations and individuals. And those endorsements usually translate into publicity, contributions, volunteers and the other forms of political assistance crucial to any campaign.

It works both ways. A candidate who receives a favorable rating from a business organization will probably find, for example, that organized labor is marshaling its resources against him.

Because incumbents have clearly identifiable track records on specific issues, rating systems generally focus on them. Challengers are affected indirectly, however: A low business rating for an incumbent is frequently the basis for a business endorsement of the opposition candidate.

Some members of Congress complain that the issues selected by the rating organizations as the basis of their analyses are too narrow, that only a thorough examination of the voting record can give an accurate picture.

But there is little argument that over the long run, the four major political rating systems have accurately placed members of Congress on the liberal-conservative scale.

For members of the business community, candidate ratings on a probusiness or prolabor basis tend to have more interest than those based on a more generalized liberal or conservative standard.

The National Chamber Alliance for Politics (NCAP), the political arm of the U.S. Chamber, runs the Chamber's rating system.

NCAP analyzes congressional votes on key business issues.

It then identifies "opportunity races"—contests offering increased congressional support for the private enterprise system.

RECOMMENDATIONS go to the U.S. Chamber's nationwide membership and are used by 1,400 business political action committees to determine which candidates they will support.

"We go through a laborious process to come up with our opportunity race list," says John A. Kochevar, NCAP's executive director. "We look at voting records, check the vulnerability of candidates and make sure the races are close enough for business to make a difference. We're seeking real opportunities for improving the makeup of Congress. And that's what lists are all about, changing and improving business' voice with the people who make the laws of the land."

The Chamber rates congressmen on their votes on the following issues:

- Restoring federal fiscal responsibility, controlling inflation and reducing government spending.
- Reducing tax burdens on individ-

uals and businesses and encouraging investment and productivity.

- Reducing the role of the federal government in individual and economic affairs.
- Increasing reliance on the private enterprise system and giving business more freedom to generate economic growth, create jobs and better serve the interests of all Americans.
- Reducing regulation of business.
- Providing greater opportunity for U.S. firms to compete abroad.

The AFL-CIO's Committee on Political Education (COPE) is generally cited as the union equivalent of NCAP. COPE hopes to use its ratings to marshal 140,000 volunteers to reverse organized labor's loss in the 1980 elections and capture five or six Senate seats and up to 30 in the House.

"The AFL-CIO analyzes the performance of Congress in terms of each representative's and each senator's votes for or against the interests of workers," says the labor federation's president, Lane Kirkland. It's no surprise that the AFL-CIO's ratings are nearly a mirror image of the Chamber's.

For its ratings, ACA tabulates votes that "have a significant bearing on the preservation of the spirit and principles of the Constitution, as these were defined by the Founding Fathers of our Republic." The votes center on the principles of limited government, free markets and anticommunist foreign policy.

ADA's ratings are based on votes "selected to display sharp liberal/conservative divisions unblurred by extraneous matters . . . and cover a gamut of judicial, social, economic, foreign, and military policy issues."

ACA's ratings tend to line up with those of the business community; ADA's tend to coincide with those of the AFL-CIO.

Do lists have an impact on the political process? Consider the 1980 elections. Although both Church and Bayh trimmed their favorable ratings from ADA in 1979, their overall records had identified them closely with vintage liberalism, and their 11th-hour conversion failed to win them re-election.

Only two of the nine incumbent liberal senators survived that election, even though all had tempered their ADA ratings.

Many other winners and losers in 1980 attribute their victories and defeats to being on the "right" or "wrong" side of lists published by the four major rating organizations.

Indeed, the major shift in Congress from liberal to conservative in 1980 was due in large part to such lists—and 1982 promises to be another telling time for who's who on whose list.

Congressional Standings

This listing shows how some congressional incumbents, all up for re-election, stand with major organizations. The National Chamber Alliance for Politics (NCAP) rates candidates on business issues. The Committee on Political Education (COPE) is the AFL-CIO's rating organization. Americans for Constitutional Action (ACA) tests conservative commitment. Americans for Democratic Action (ADA) is a liberal group.

Senators	NCAP	COPE	ACA	ADA
Jeremiah Denton (R-Ala.)	100%	11%	80%	0%
Ted Stevens (R-Alaska)	100	17	61	15
Mack Mattingly (R-Ga.)	100	11	86	5
Steven Symms (R-Idaho)	100	6	81	0
Robert Dole (R-Kans.)	100	11	70	5
Paul Laxalt (R-Nev.)	100	6	80	5
Harrison Schmitt (R-N.M.)	100	11	80	10
John East (R-N.C.)	100	11	94	0
Jesse Helms (R-N.C.)	100	5	95	0
Strom Thurmond (R-S.C.)	100	5	90	0
John Tower (R-Tex.)	100	13	72	10
Orrin Hatch (R-Utah)	100	11	85	0
John Warner (R-Va.)	100	5	80	5
Malcolm Wallop (R-Wyo.)	100	5	70	10
Christopher Dodd (D-Conn.)	0	100	0	90
Carl Levin (D-Mich.)	0	100	10	100
Thomas Eagleton (D-Mo.)	0	94	14	90
Representatives				
William Dickinson (R-Ala.)	100%	27%	76%	5%
Albert Lee Smith, Jr. (R-Ala.)	100	13	87	0
Gene Chappie (R-Calif.)	100	0	90	0
Don Clausen (R-Calif.)	100	7	71	0
William Thomas (R-Calif.)	100	8	75	5
Robert Lagomarsino (R-Calif.)	100	0	92	5
Bobbi Fiedler (R-Calif.)	100	25	83	10
Jerry Lewis (R-Calif.)	100	0	68	5
William Dannemeyer (R-Calif.)	100	0	100	10
Robert Badham (R-Calif.)	100	15	79	0
Bill Lowery (R-Calif.)	100	0	71	5
Andy Ireland (D-Fla.)	100	29	74	5
Newt Gingrich (R-Ga.)	100	4	74	10
Larry McDonald (D-Ga.)	100	0	100	5
Tom Corcoran (R-Ill.)	100	13	86	20
Robert Michel (R-Ill.)	100	0	86	10
Edward Madigan (R-Ill.)	100	14	80	5
Dan Coats (R-Ind.)	100	20	79	10
Guy Vander Jagt (R-Mich.)	100	7	86	10
William Frenzel (R-Minn.)	100	7	71	30
Edwin Forsythe (R-N.J.)	100	20	50	35
Barber Conable (R-N.Y.)	100	0	81	25
Jack Kemp (R-N.Y.)	100	7	82	10
Thomas Hartnett (R-S.C.)	100	7	91	5
Carroll Campbell (R-S.C.)	100	14	87	0
James Quillen (R-Tenn.)	100	21	85	5
Robin Beard (R-Tenn.)	100	27	80	0
Thomas Loeffler (R-Tex.)	100	13	83	0
William Whitehurst (R-Va.)	100	0	82	10
Thomas Bliley (R-Va.)	100	13	79	0
Frank Wolf (R-Va.)	100	0	79	10
Sid Morrison (R-Wash.)	100	7	79	5
Richard Cheney (R-Wyo.)	100	7	79	5
Ronald Dellums (D-Calif.)	0	80	10	95
Gus Savage (D-Ill.)	0	100	0	65
Floyd Fithian (D-Ind.)	0	82	29	55
Joseph Early (D-Mass.)	0	87	27	85
Thomas O'Neill (D-Mass.)	0	95	*	*
George Crockett (D-Mich.)	0	91	5	70
William Clay (D-Mo.)	0	87	9	95
Frank Guarini (D-N.J.)	0	93	10	85
Benjamin Rosenthal (D-N.Y.)	0	100	0	80
Robert Garcia (D-N.Y.)	0	100	5	70
Mary Rose Oakar (D-Ohio)	0	93	22	55
Henry Gonzalez (D-Tex.)	0	93	17	70

*House Speaker O'Neill rarely votes.

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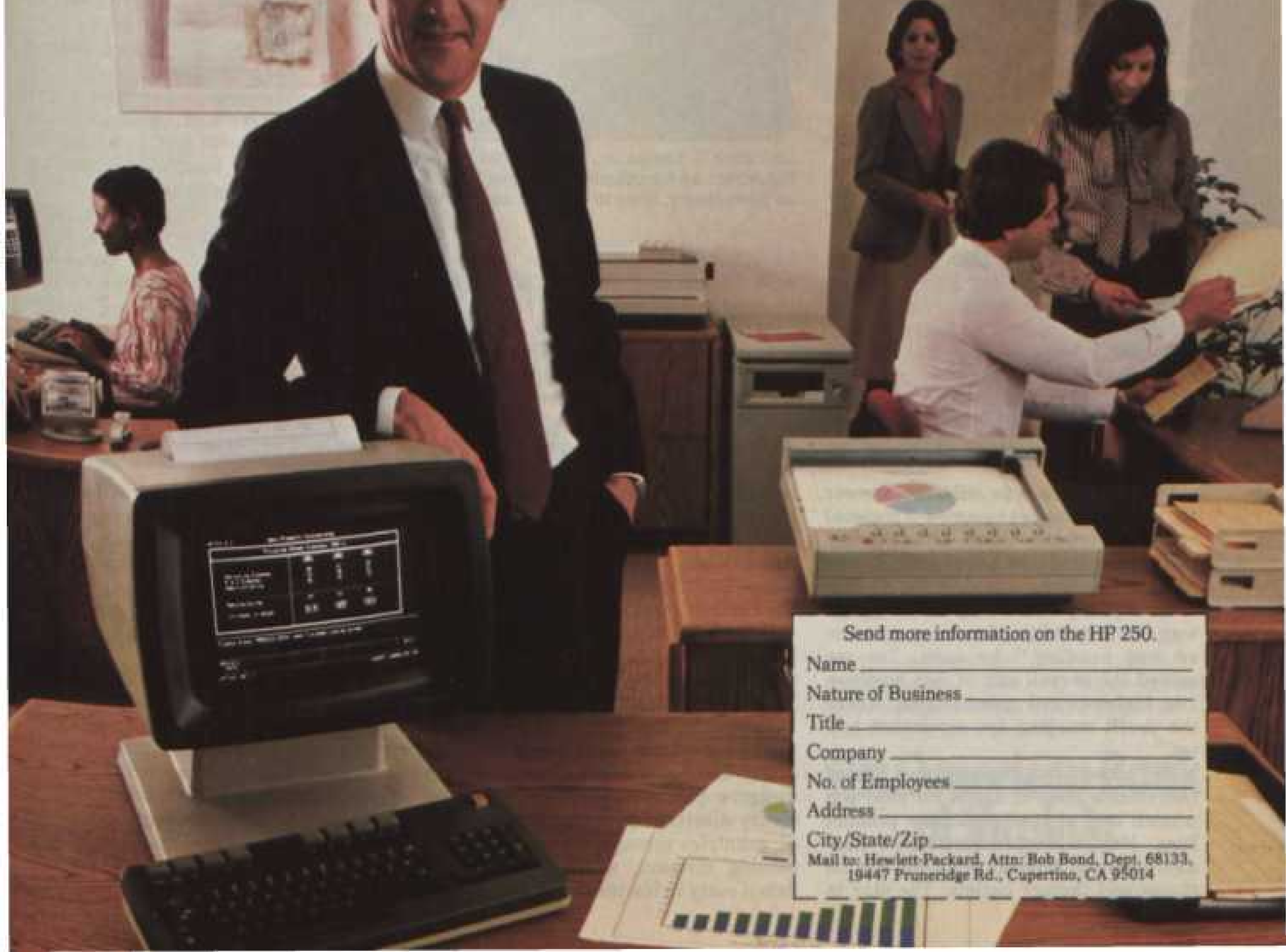

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The Runner Who Put a Firm on Its Feet

TURNING Manhattan Industries, one of the 15 largest American apparel manufacturers, into a profitable company wasn't easy, but Laurence C. Leeds, Jr., the company's chairman, president and chief executive officer, isn't resting on his laurels now.

Leeds, 53, who enjoys running in the front of the pack in his personal life, too—he finished last year's New York Marathon in the top quarter, with a time of 3 hours and 26 minutes—has always had ambitious plans for his company.

First he had to get Manhattan Industries on its feet. The product line had changed very little since his great-grandfather, Louis Levi, started the company in 1857. It manufactured primarily moderately priced shirts for men and women.

That had sufficed in the past, but in 1974, the year Leeds accepted the responsibilities of chairman in addition to those of president, the company closed out its books with a loss of $7.9 million on sales of about $239 million. Leeds then made what he calls the most difficult decision of his career: He decided to diversify.

PHOTO: MANHATTAN INDUSTRIES

Laurence C. Leeds, Jr., who revived Manhattan Industries by introducing such fashionable lines as John Henry, likes to do business by telephone.

Unlike other businesses that diversify, however, he did not go outside his own industry but added emphasis to women's and children's apparel and accessories, which now account for the bulk of the company's manufacturing.

He also refinanced existing loans and disposed of several failing divisions, reducing the number of employes by about 2,000.

Diversification was only one answer to turning the company's financial statement around. Going after the status label market, as Leeds calls it, was next.

"It was my belief that this was the way the taste of the American consumer was heading," he says, "so we moved the overall mix of our business into higher-priced merchandise, where the profit margins are somewhat better."

He added two higher-priced, more fashionable lines of shirts for men and women and upgraded various product lines. Manhattan Industries now handles about 40 product lines and has 35 stores and factory outlets. The star in its retail firmament—Frost Brothers, with 12 specialty stores in Texas—accounted for 37 percent of the company's profits last year. Here, too, Leeds says, "we positioned ourselves more for the affluent customer, and that is where our growth came."

LEEDS ADDED more stars to the Manhattan Industries skies when his company acquired the licenses of famous fashion designers—among them Yves Saint Laurent, Balmain, Lanvin, Anne Klein, Liberty of London and Vera—and marketed their products in the United States.

More recently, designs by Krizia, Frank Masandrea and Michaele Vollbracht have joined the Manhattan Industries licensing family.

Exports of the company's own trademarked products, including Manhattan Shirts and Lady Manhattan, and such designer products as Perry Ellis and Henry Grethel sportswear, now go to 51 countries through the company's licensing division, which Leeds established early in his tenure.

The children's wear manufacturers include Pelican Fashions and Jayco Knitwear Company. Other subsidiaries are Chesa International, John Henry for Men and Women, Bayard and Manhattan Shirt divisions, the Vera Companies and Manhattan Accessories Division. "With this amount of diversity," says Leeds, "the company doesn't get hurt by a decline in one area."

Under his leadership, the company chalked up a record $377 million in sales last year and a net income of $9.7 million—an increase of nearly 90 percent over the previous year. Says Leeds, "I was either bright or lucky."

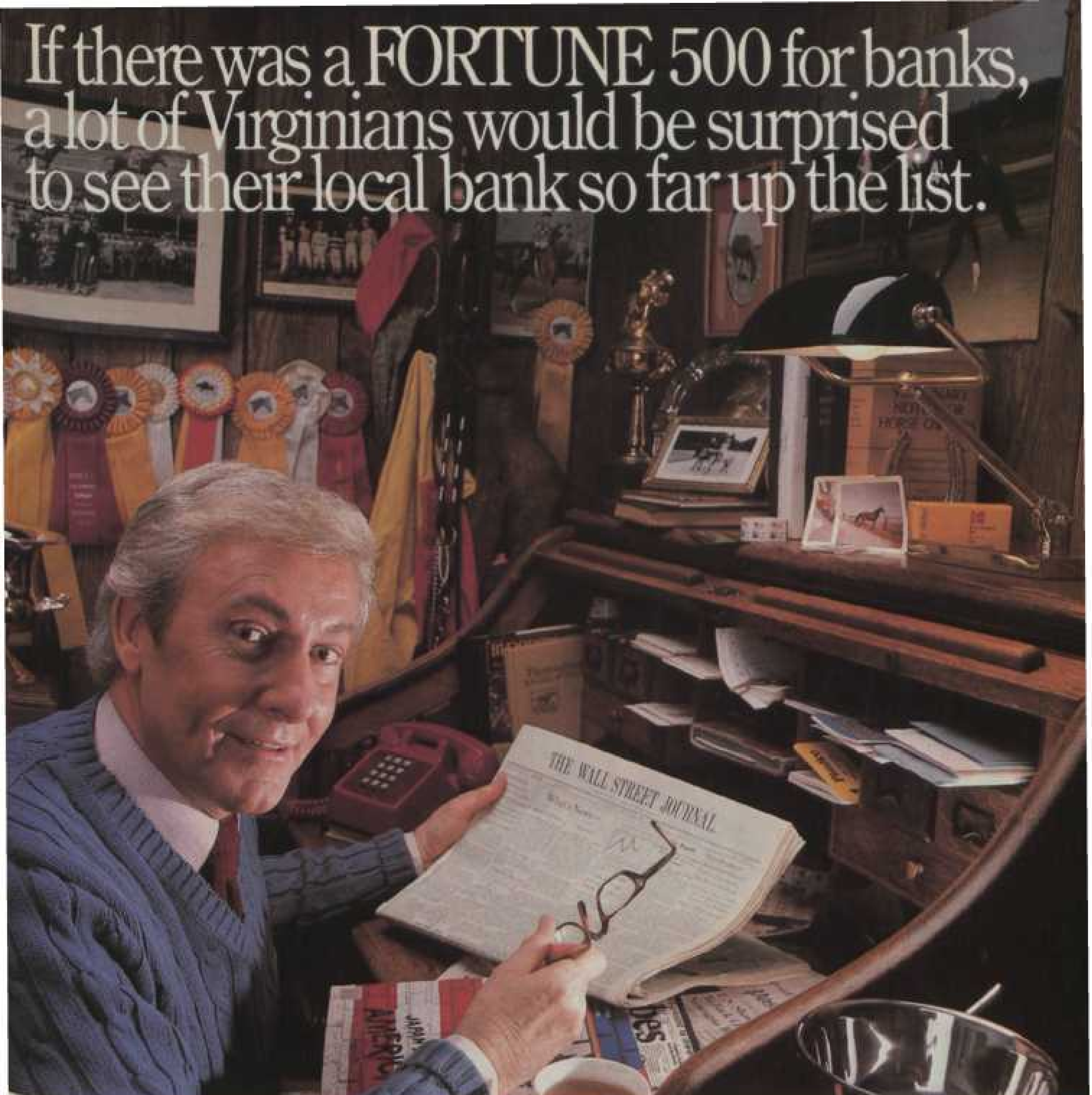
Perry Ellis Sportswear, a $30 million division now in its fifth year, represents one of Leeds' bold steps. Negotiations with the American designer took eight months, and Leeds sank $3 million into developing the line, which didn't show a profit for four years. But it gave Manhattan Industries the pizzazz he was looking for and has proved to be a top moneymaker.

The recognition Perry Ellis has received in the apparel industry as a prime innovator on Seventh Avenue has already led to outside licensing agreements for furs, shearling coats and hosiery.

Constant travel and a lot of long-distance calls are a necessary part of Leeds' life, since licensees are located as far away as South America and the Far East. He doesn't like writing memos, so he may call his top executives at home as late as 11 p.m. to keep in daily contact with them.

Despite his hectic schedule, he manages to find time for running, going to the theater and enjoying his family. "I try to combine business with pleasure whenever possible," says Leeds, who frequently runs with customers in Central Park. Although he may hang up his marathon shoes, he plans to keep himself and his company in top running shape. □

If there was a FORTUNE 500 for banks, a lot of Virginians would be surprised to see their local bank so far up the list.



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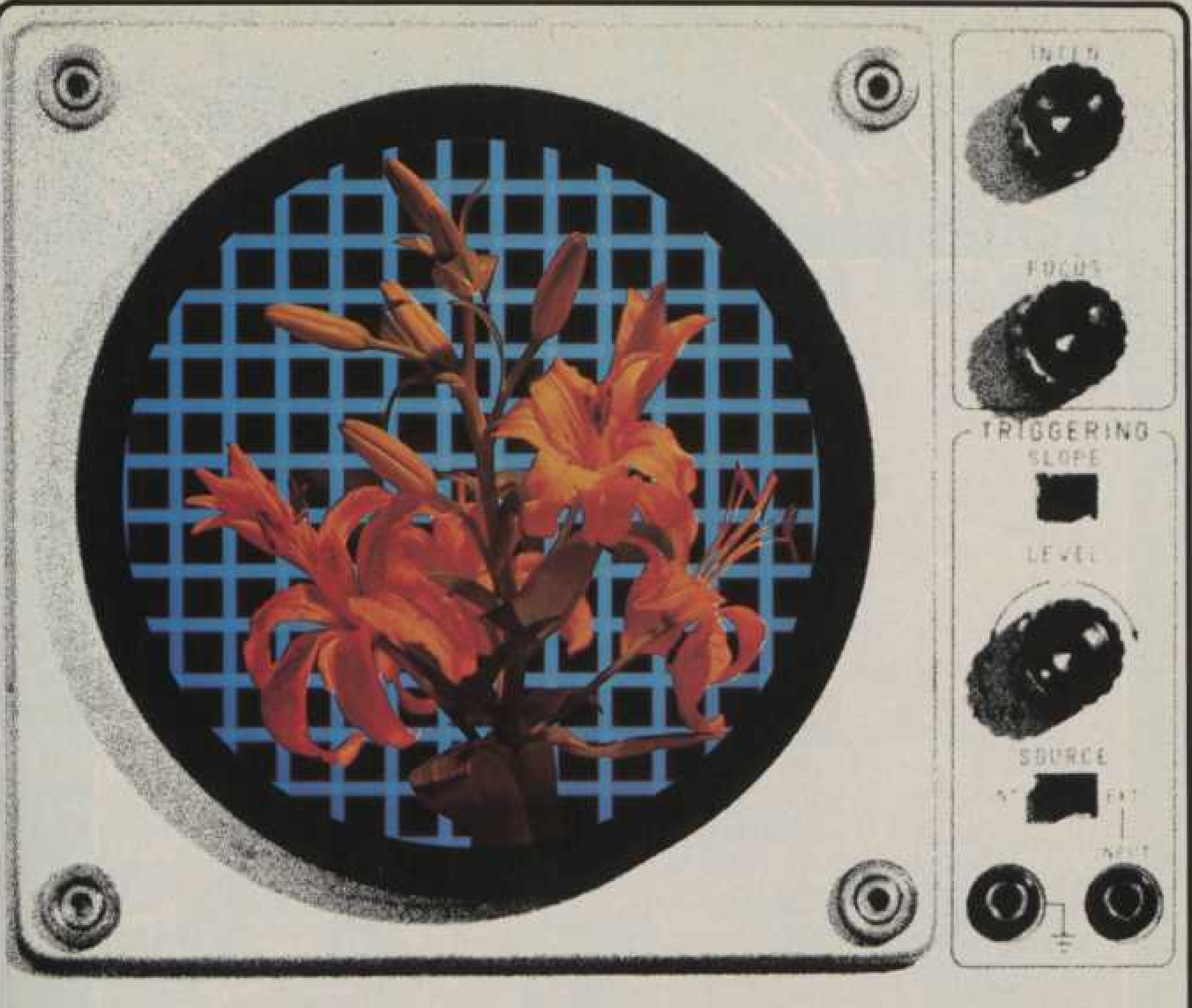

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Securities association chief Edward O'Brien: One-year holding slows investment.

Shorter Wait On Capital Gains?

A COMPROMISE WORKED out by the Senate Finance Committee may lead the securities industry to a long-held goal—a return to the six-month holding period on long-term capital gains.

Charged with raising $21 billion to help stem the 1983 budget deficit, the committee, led by Chairman Robert Dole (R-Kans.), has come up with a plan to require financial institutions to withhold 10 percent of interest and dividend income to individuals, partnerships and trusts. In the past such withholding proposals have been blocked by banks, savings and loans, and stockbrokers. But since several committee members favored a cut—or even elimination—of the holding period, withholding and the shorter holding period were approved together.

According to the Securities Industry Association, the advantages of cutting the holding period from a year to six months outweigh the estimated $50 million cost to the industry to set up a withholding system.

A shorter holding period is not yet a sure bet, however. The Finance Committee's tax-increase package faces a vote by the full Senate, plus debates by the House Ways and Means Committee and a conference committee.

Nevertheless, the president of the Securities Industry Association, Edward I. O'Brien, is hopeful. Cutting the holding period was part of the 1981 Economic Recovery Tax Act until late in the amending process, he notes.

Says O'Brien, whose group represents 550 stockbrokerage and investment banking firms: "The one-year holding period slows much-needed savings and investment." The federal deficit is swollen because taxable investment is discouraged, he says.

The maximum tax rate for capital gains on stocks, bonds, real estate and other investments is 20 percent, compared with the 50 percent cap on individual rates. That's a strong motivation to hold an asset to qualify for the long-term gain. However, while waiting to take advantage of the lower tax rate, O'Brien says, investors often see their gains diminish or even disappear.

From 1942 until 1976 the holding period was six months. Congress lengthened the period in stages—to nine months and then to a year—as part of the 1976 Tax Reform Act because, says the Joint Committee on Taxation, it considered six months "inappropriately short." The committee observed that "there should be special tax treatment for gains on assets held for investment but not on those held for speculative profit," and it said that an investor who wanted to hold for only six months was probably speculating.

There's a recent precedent for removing the holding period. The period for commodity futures contracts was eliminated last year, and profits from these contracts are now taxed at a top rate of 32 percent.

In addition, the 1978 cut in the capital gains rate from 49 to 28 percent—a predecessor to last year's cut to 20 percent—came off successfully. In a partial proof of supply-side economics, tax revenues on capital gains increased in both 1979 and 1980.

TO BUTTRESS its arguments, the Securities Industry Association commissioned an Opinion Research Corporation survey of top and middle managers. They were asked whether a reduction or elimination of the holding period would affect their investment in any of 11 vehicles.

Fifty-three percent of the 568 respondents said they would increase investment during the first year a six-month holding period was in effect. The most frequent avenue of investment: existing common stock. The mean value of such investments was projected at approximately $18,700. Next in investment popularity were initial public offerings of stock and real estate other than a home.

Extrapolating from the survey findings, specialists say the impact of reducing the holding period would be impressive. George L. Ball, chief executive of the Bache Group and chairman of the Securities Industry Association's tax policy committee, says, "If 10 percent of all individuals in the same income class as the surveyed executives followed similar investment behavior, total new and increased investment would be around $50 billion."

Though $50 billion seems staggering, Ball points out that it is only about 7.5 percent of the increase in personal financial holdings by households from 1979 to 1980.

"Cutting the holding period is something we believe in, and not just for selfish reasons," O'Brien says. "There's a clear public benefit." □

—Michael Thoryn

History Of The Holding Period

1922-1933	2 years
1934-1937	Four periods, ranging in length from 1 to 10 years
1938-1941	Two periods, 18 months and 2 years
1942-1976	6 months
1977	9 months
1978 to present	1 year

U.S. CUSTOMS: Less Pressure On the Law-Abiding

Commissioner William von Raab plans to make things tougher for smugglers but easier for business people.

IN AN ERA when federal employes are often looked on as the guys wearing the black hats, Commissioner of Customs William von Raab believes that his people are perceived as wearing white hats. Americans, he says, "look at Customs as a protector of national health, safety and trade."

And as this one-time college polo player (one-goal rating) and New York lawyer points out, his service is a profit center. Customs duties, fines and other charges brought in $9.2 billion in fiscal 1981, and the estimate for the current year is more than $10.2 billion.

If management changes and the streamlining that von Raab is pushing cause the cash register keys to jangle even faster, the return on taxpayers' investment will grow accordingly. In 1981, for every dollar spent the service returned $18. Customs, a Treasury Department agency, has asked for $530.5 million to run its operations in fiscal 1983.

PHOTOS: U.S. CUSTOMS SERVICE

Customs chief von Raab discusses agency policy in one of his many media contacts.

"Our highest priority is law enforcement," von Raab emphasizes. "Second priority is facilitating passengers and cargo, and third is reducing the overall cost of doing business." He explains that "I am a strong believer in the free enterprise system, and I feel it should be allowed to operate free from government overregulation as much as possible.

"We are emphasizing the mission of Customs, getting everyone working on the mission," he says. "If something doesn't involve enforcing the law, collecting revenues, protecting the public or facilitating trade, we aren't interested."

Customs' budget request for fiscal 1983 calls for a personnel level of 12,581, a reduction of 2,304 employes. Von Raab plans to compensate for that belt tightening by eliminating activities he says his agency shouldn't be doing.

The youthful-looking commissioner shakes his head over "the incredible things that go on in government service." For instance, he says, "we had an economic analysis group that produced enormous reports on where the gross national product would be going over the next few years. Is that a Customs function?

"If you look in any government organization, you will discover pockets of people who are involved in what is called internal control. We're going to reduce that in the Customs Service. An example is one guy reviewing the paper of another guy, who in turn reviews another's paper, and nothing is added as this activity takes place. These people are not lazy. They are very well motivated, but what they are doing just isn't of any value to the Customs Service mission."

Von Raab uses anecdotes to mobilize his staff in solving problems. He provides general leadership and direction and then serves as his own fact finder during travels to Customs Service operations around the nation. His style is one-on-one, and he takes every opportunity to talk to personnel at ports of entry and regional offices.

"If you go out and ask a lot of questions, you can find out when your directions are not filtering down," von Raab says.

"The staff hates to see me after a trip because I say, 'Look, certain things are not filtering down.' "

He cites a recent case involving Customs personnel: "Customs officials complained, 'Hey, we worked up a cou-

ple of good cases, but headquarters didn't treat them as seriously as you said they should be treated.' "

Von Raab investigated and found that in some situations serious violators were being given penalties commensurate with those given employes for being late to work. "So I came back and said to the responsible guy, 'Check with your people and make sure they're doing what we say we're doing.' It turned out that one or two hadn't gotten the message. Now they have."

Von Raab, 40, is not unfamiliar with foreign trade. Since his father was a steel company export manager, trade was often a dinner table topic in their Long Island home.

NEITHER IS von Raab a stranger to Washington. A 1966 graduate of the University of Virginia law school who got his B.A. at Yale, he served the Nixon administration as executive director of the Pay Board, the wage-setting section of the Cost of Living Council established to monitor wage increases.

After closing down the Pay Board, von Raab became a consultant to the Bureau of East-West Trade at the Commerce Department. He was one of the architects of an embargo on soybeans.

From there he moved to the Federal Energy Office to become executive assistant to John Sawhill, who took him along when he became head of the Federal Energy Administration, predecessor of the Department of Energy.

When Sawhill left Washington to take the presidency of New York University, von Raab followed and was named vice president for administration and financial consultant.

Von Raab returned to the practice of law in 1980 as a partner in the Washington office of the firm of North, Haskell, Slaughter, Young & Lewis, where he was when Reagan became President.

Von Raab, who had worked informally on the Reagan transition team, became commissioner of Customs in September, 1981, joining a 193-year-old service that lists among its alumni famous authors Nathaniel Hawthorne and Herman Melville (both low-level employes) and Chester A. Arthur, the 21st President.

Breaking the bottleneck for law-abiding travelers at U.S. Customs inspection stations is a goal of the new leadership at the agency.

This high-speed boat is one of Customs' fleet of 95 on antismuggling duties within the 12-mile limit. The U.S. Coast Guard takes over on the high seas.

When Arthur was collector of the Port of New York, his annual salary was $50,000, equal then to the President's. Civil Service and subsequent reforms soon changed that. Today the senior official in the service—the commissioner of Customs—is paid $58,500.

Von Raab looks forward to weekends on his 100-acre farm in the foothills of Virginia's Blue Ridge Mountains. There, he and Madison County Deputy Sheriff Treasure Arrington run a cow and calf operation. They have 20 cows, which thus far have produced 19 calves.

"My wife and I joke that she lives in town and I visit her during the week, while I live on the farm and she visits me on the weekends. We have a couple of horses on the farm, which Alexandra, our daughter, rides, but that's not enough to keep the thistles down. So I'm just a poor farmer trying to save my nickels to buy a tractor."

Basic to von Raab's approach to streamlining his service's procedures is acceptance of the fact that "most people we service are law-abiding." His goal is to have Customs officers focusing more of their efforts on "high-risk" passengers and cargo.

"The concepts of enforcement and facilitation are viewed as contradictory and have been called the Customs dilemma," he says. "Personally, I do not believe these two functions conflict with each other. Customs cannot continue to penalize the vast majority of passengers and importers by subjecting them to antiquated, time-consuming processing methods."

BUT VON RAAB'S approach doesn't mean that the gate is open to the first-time smuggler. Special Customs detector dogs and cargo enforcement teams, along with regular Customs officers, seized $4.8 billion in contraband during the last fiscal year. Among this was eight pounds of heroin that inspectors at Honolulu found in the suitcase of an overly polite Washington State real estate dealer. At New Orleans Airport inspectors opened a passenger's briefcase and found $1,890,862 in undeclared checks and currency.

Von Raab's major focus, however, is on the hardened criminals who smuggle drugs in and, to buy these drugs, money out, and on the export of high technology vital to national defense. To stop these illegal activities, von Raab has a fast-moving strike force of 1,200 Customs patrol officers, who operate 95 boats, 50 airplanes and six surveillance radars. Working with other law enforcement agencies, they use the most modern technology, including airborne look-down radar and computers, to intercept and apprehend violators.

But it is a monumental problem, and while Customs improves its capability, the flood continues. In fiscal 1981 Customs seized 234 pounds of heroin, 3,741 pounds of cocaine, 17,991 pounds of hashish, 5 million pounds of marijuana and 38.9 million units of other narcotics and dangerous drugs. Although those are indeed impressive figures, Customs' recent interception of a 3,906-pound shipment of cocaine—a world-record hit—represented only about 4 percent of the cocaine that may annually enter this nation illegally, according to the Drug Enforcement Administration.

With better management and a sweeping away of nonessential activities, von Raab plans to make it tougher for criminals while making it easier for Americans to travel and trade. □

—Grover Heiman

Break for the Home Office

By Samuel H. Murray

Now that office-at-home rules have been eased by IRS, the courts and Congress, more taxpayers will be able to deduct the expenses of an office in the home, including a percentage of rent or mortgage and utility payments, and depreciation on the house, furniture and equipment.

The courts have tended to consider more activities trade- or business-related, a requisite for a tax deduction. The office does not have to occupy an entire room: It can be just a corner of the room, so long as that corner is used exclusively and regularly as the office. And Congress has specified that it does not have to be the principal office of the taxpayer's primary business activity—something IRS had insisted on. As long as it is the principal office for any business, even for moonlighting, the expenses are deductible.

Nevertheless, restrictions remain. For example, an employe who works at home must establish that the office was set up for the convenience of the employer—say, if the company does not give a sales representative any office space. Also, deductions may not exceed the business activity's gross income less the allocable part of interest and taxes on the residence.

Medical Expenses

Congress is considering raising the floor for deductible medical expenses. Currently, only medical expenses in excess of 3 percent of the taxpayer's adjusted gross income are deductible. Figures of 5 percent and 10 percent have been heard on Capitol Hill.

The tax code treats as a medical expense amounts paid for diagnosis, cure, mitigation or prevention of disease or for the purpose of affecting any structure or function of the body.

Swimming pools, dust collectors, humidifiers and elevators fall into a gray area. If a doctor recommends the installations to alleviate or treat a medical condition, part of the outlay—the excess of the expenditure over the increase in the residence's fair market value due to the installation—qualifies as a medical expense.

The Internal Revenue Service may ask you to show a strong connection between your medical condition and the installation. Recently, for example, IRS challenged deductions for a tractor and a snowblower that a couple bought to avoid aggravating their back problems. The U.S. Tax Court didn't see sufficient connection between the medical problem and the expenditure and refused to allow the cost as a qualifying medical expense.

Outlays for hair transplants and electrolysis are deductible. Face lifts and other cosmetic surgery also qualify.

Condo Energy Credits

Owners of condominium and cooperative units can claim an energy tax credit for conservation expenditures incurred by their homeowners' associations.

All homeowners are allowed a 15 percent tax credit on the first $2,000 spent on storm windows, insulation, automatic setback thermostats and other items to conserve energy. Such costs can be allocated among owners.

However, there is a *de minimis* rule: Energy credits worth less than $10 may not be claimed.

Also, if the owner sells during the year in which an energy conservation expenditure is made, his share is prorated based on the number of months he owned the condo.

The same allocation rules apply to the larger credit—40 percent of the first $10,000—for equipment to use solar, wind or geothermal energy.

Risky Business Borrowing

Individuals, Subchapter S corporations and closely held corporations that borrow from their pension plans to buy equipment may lose the 10 percent investment tax credit. The Economic Recovery Tax Act requires that such buyers be at least 20 percent "at risk" to qualify for the credit. They can then finance the balance of the purchase price with nonrecourse notes and still claim the investment tax credit on the full purchase price. As borrowers repay the loan, they may claim the investment tax credit on the amount repaid each year.

The problem is that if a related party makes the loan, even if it is a recourse loan, the borrower is not deemed to be at risk. A beneficiary and the fiduciary of a pension plan are related parties.

Hence, a borrower who pays for the equipment with funds from the plan does not meet the minimum 20 percent at-risk requirement and cannot claim the investment tax credit. Obtaining 20 percent of the money from another source won't satisfy the 20 percent at-risk requirement unless the balance of the borrowed funds is from "qualified" lenders—and a pension plan is not a qualified lender when it is related to the borrower.

One solution: Arrange to borrow from a friend's pension plan.

All-Savers Into IRAs?

Congress does not appear likely to extend the law authorizing all-savers certificates beyond 1982. These savings instruments permit an investor to exclude over his lifetime the first $1,000 of interest ($2,000 if he files a joint return). The interest in excess of the exclusion limit is reported by a cash-basis taxpayer (most individuals file on this basis) in the year the interest is credited or made available—even if it is not withdrawn.

But some lawmakers in the House want to let taxpayers make up to $2,000 in nondeductible contributions to their Individual Retirement Accounts in addition to the standard $2,000 deductible contribution. They say the change would induce investors with expiring all-savers certificates to roll over their proceeds into IRAs, thus keeping money in the savings stream. The investor would continue to have a tax-free return until he withdraws his funds during retirement. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

SAMUEL H. MURRAY *is a principal with Arthur Andersen & Company in Washington, D.C.*

He Makes What Farmers Want

In four years Jake Morse, 44, transformed his dream of managing a company of his own into the reality of a nationally known manufacturing firm with more than $5 million in gross sales in fiscal 1981.

Morse, a farmer's son, had been a plant manager, an industrial engineer, a public school teacher and a farm equipment dealer before entering his father-in-law's business, farm equipment manufacturing.

When his father-in-law sold the firm, Morse decided to start his own. In 1977 five employes began working in a 7,000-square-foot plant near Jonesboro, Ark., making planting equipment. Morse, at the suggestion of his wife, June, named the company Marliss Industries, after their three daughters, Margie, Marcia and Melissa.

Although family members work in the business, Marliss is not family-controlled. Morse says this helped him attract initial investors.

Despite the poor economic environment for farmers, Marliss has had steady growth in sales. Morse attributes part of his success to making "quality products that farmers want, not what you think they need." To learn what they want, he attends 30 or more farm equipment trade shows a year and listens to farmers and dealers. He says, "It boils down to having the right product at the right time and marketing it well."

Principally, that product has been the company's soybean and grain planters, known as drills, which he decided to make after many conversations at trade shows. "We recognized," he says, "that soybean and grain drills represented a promising farm technique. They allow soybeans to be seeded while weed-control chemicals are applied, thus eliminating cultivation. This results in dramatic fuel savings."

PHOTO: MARLISS

Jake Morse's planting machines stand ready for shipment. Farmers in the United States, Africa, and Central and South America are his customers.

Because it filled a need, Morse says, "the Marliss drill was accepted in the market from the first day it was introduced." The drill comes in various widths and is adaptable to conventional, no-till and reduced-tillage methods. The company was one of the first manufacturers to recognize the importance of tillage methods that save fuel and reduce soil erosion, and this translated into heavy sales. To meet demand, Morse now has a 45,000-square-foot facility and 150 workers.

Through export management companies, Marliss sells in Africa, and Central and South America. Morse, who was named the 1982 Arkansas Small Business Person of the Year, also plans to expand West Coast distribution of his products.

From the beginning, says Morse, "Marliss has made a large commitment to research and development for a company of its size."

R&D has enabled the company to take advantage of the changing agricultural market, and Morse wants to be ready for any future opportunities that come along.

The Fleet-Footed Monster Cookie

Specially delivered chocolate-chip cookies the size of a pizza are turning up at management meetings, office birthday parties and all manner of other places. They are the brainchild of New Yorker Marolyn Schwartz.

Schwartz, 31, a former executive in the rock-and-roll music business, first baked the huge cookies for friends when she found herself at home with an infant daughter and time on her hands. Several friends commented that the cookie, which is 13 inches across, cuts like a pizza and serves more than 20, would be a perfect snack for meetings. The cookies were always a hit. "I use only natural ingredients, and each cookie contains a whole pound of chocolate chips," Schwartz says.

Last summer, Schwartz turned her baking into a business, the I.M. Cookie Company, using her daughter's initials. She launched a delivery service and ran a small ad in *New York* magazine, featuring the service's name, The Cookie Courier.

As orders came in and volume increased, Schwartz worked harder and longer. "I had started mixing all the cookies by hand with a wooden spoon, and I resisted using any machines because I kept telling myself, 'That must be my magic.' "

Her husband, Jerome, an accountant whose father is a baker, finally talked her into buying a mechanical mixer. "I realized that if the business was to succeed, I would have to make the changes growth demanded," says Schwartz, who was delighted to find that the machine-mixed cookies tasted just as good.

Orders continued to increase. "Even with some help, Christmas was a round-the-clock operation, and I was afraid my oven would give out from constant use," she says.

In January she moved the operation from her Manhattan residence to a small store nearby on Ninth Avenue.

By Mary Tuthill

PHOTOS: MARY TUTHILL

Marolyn Schwartz will send her cookies almost anywhere by Cookie Courier.

With a $5,000 loan from friends and relatives, she equipped it with commercial mixers and ovens. "That was a good move," she says, "because Valentine's Day was busier than Christmas."

Her staff now totals six, and her line of cookies has expanded to chocolate with chocolate chips, peanut butter chip, oatmeal, a giant brownie and others. Schwartz also makes fruit muffins and sells an assortment of gift packages of small cookies.

The large cookies come in colored wrappings with ribbons and greetings. They are packed for shipping according to the distance. The Cookie Courier has filled orders for members of Congress and Hollywood stars and has even shipped a cookie to London—for $80. A cookie costs $24 in New York, where delivery is by cab, and $25 to $35 if delivered elsewhere in the U.S.

"I love my work," says Schwartz, who says she is always tempted to sample her products. "We grossed $125,000 in the first six months of 1982, and I expect sales to double in the second half of the year."

Cloak-and-Dagger Men Aid Executives

As an Air Force counterintelligence officer, Col. Roy Tucker became aware that business had become an attractive target for terrorists. "Yet," he says, "no one was offering information about such activities to businesses."

So in 1978, after retiring from the military, Tucker and two civilian counterintelligence experts, Charles Russell and Walter Burns, started Risks International. The Alexandria, Va., company publishes reports for business subscribers about terrorists activities around the world and advises companies on what to do if they are victimized.

"We put out a mass mailing to executives doing business in high-risk areas," says Tucker, the firm's president, "but we already knew many of these people and just told them we were starting the service." Word of mouth has proved to be the most effective way to get subscribers for the *Executive Risk Assessment* reports.

Subscribers pay $1,260 per year for monthly reports of about 24 pages and quarterly reports about twice that size. The reports assess the level of risk in various parts of the world and explain why. In addition to describing significant developments, the reports give a chronology of terrorist incidents for the period, showing the date, city, type of incident, target, nationality of the target and whether the terrorist attack succeeded.

All the data for the reports are stored in a small computer.

In its first year Risks International attracted about 200 subscribers. "We were struggling like most new companies," says Tucker. "But we hadn't expected the business to suddenly blossom. Since we were already retired, we were willing to start slowly, establish credibility and let growth take its course."

Credibility was soon well established, and information from the reports appears in a number of books about terrorism. The reports have frequently predicted a potentially dangerous situation two or three weeks before a serious incident.

The reports also help bring in consulting work, which pays well. "Four or five big consulting jobs are equal to 25 or 30 subscriptions," says Tucker.

The staff has grown from six to eight, and Tucker estimates that employes have a total of 150 to 160 years of experience.

In addition, a network of associates all over the world can be called on for special expertise. Tucker does not expect to add any staff members in the near future, but in 1982 he hopes to expand the consulting part of Risks International's business and increase subscriptions by 25 percent, although he now has a few competitors.

Tucker and his staff would much prefer to help keep executives out of trouble than to rescue them. But when it comes to a kidnapping or hostage taking, Tucker says, "I put the company in touch with the expert in their area whom I would want to arrange the release if I were the victim." □

Walter Burns (left) and Col. Roy Tucker of Risks International discuss a potential threat to American businesses with operations overseas.

This regular feature of NATION'S BUSINESS is designed to determine views of readers on pending Washington issues of major concern to business. Results of the July poll—on whether scheduled tax relief should be curtailed—are being tabulated and will appear in the September issue. In addition, the results will be brought to the attention of decision makers in the White House, Congress and the appropriate agencies.

Amend The Constitution To Require A Balanced Budget?

This Is Where I Stand:

YES ☐ Congress lacks the political courage to balance the budget. Members find it easier to run up deficits than to cut spending or increase taxes in the amounts needed to avoid red ink. A constitutional amendment requiring a balanced budget would eliminate that choice. The government would be forced to live within its means, with provisions made for incurring deficits to deal with defense or other emergencies.

NO ☐ A balanced-budget amendment would deny Congress the flexibility it needs to set fiscal policy in the face of changing economic conditions. The amendment's restrictions could at some point prevent a majority of members of Congress from heading off serious economic damage. Americans already have the power—their vote—to deal with elected officials whose actions on fiscal policy do not reflect public opinion.

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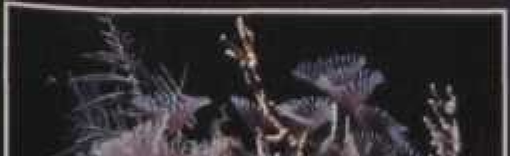


PHOTOS: FLIP NICKLIN

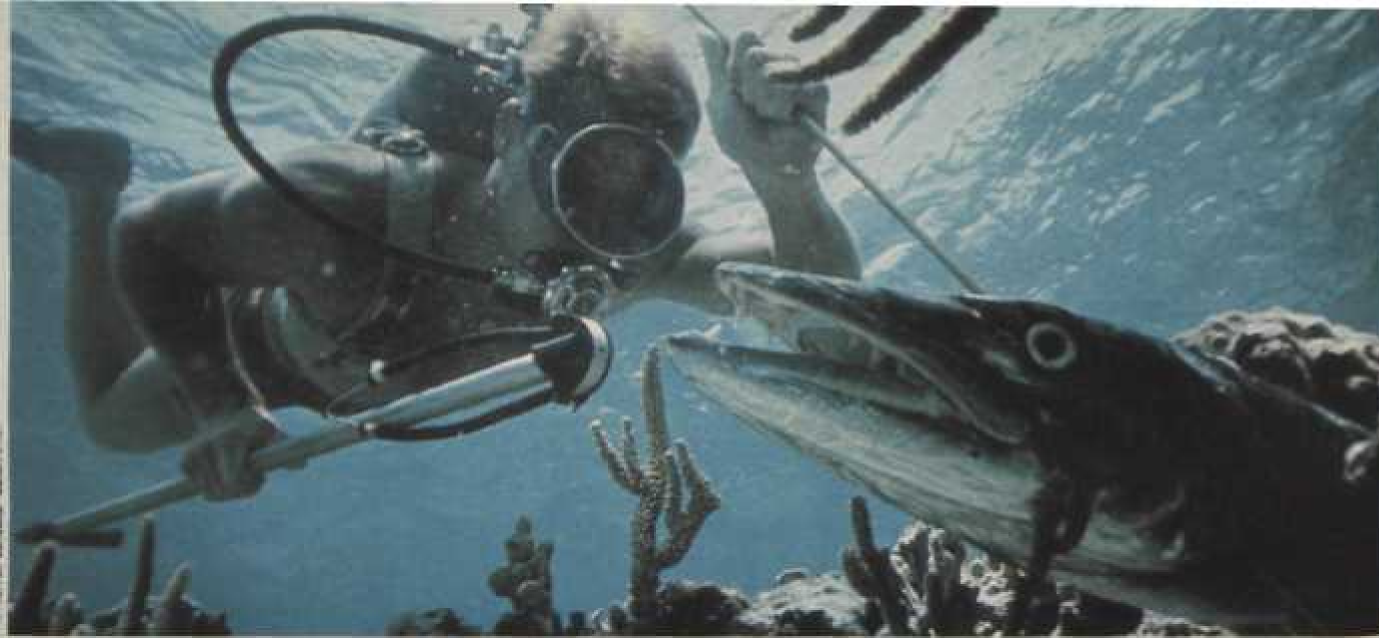
Exploring The Underwater World

By John Costello

Bored with the majestic snow-clad slopes of the Rockies, the molten Manila sunsets or the magic of moonlight on the Taj Mahal?

Well, there's a far vaster world awaiting you—the underwater world of scuba diving. Your ticket of admission is a pair of diving goggles, a tank of air, swim fins and maybe a wet suit. It's a wet world

Sea creatures display exquisite colors and stunning shapes.



PHOTOS: FLIP SCHULKE—BLACK STAR

Some divers see in the barracuda an underwater adversary because its jaws look almost as menacing as a shark's.

teeming with life—exotic plants that make orchids look humdrum; creatures of brilliant hues, with shapes strange and fantastic; a world painted from a palette of shocking pinks, dazzling golds and crimsons, strobelike yellows, iridescent blues. It's a Picasso seascape run riot with color and imagery that makes dry land seem drab. Even when its blanket of green runs amok with crimson and ochres in the fall, terra firma pales by comparison.

This world even has its submerged jungles, such as the thick kelp forests off California that Mike Gower loves to prowl when he takes time off from Gower Properties, a real estate management and consulting firm he owns in San Jose. Kelp flourishes in the chilly waters of the Pacific coast from Canada to northern Mexico.

Some call the giant plants the sequoias of the sea. From their base, anchored in the ocean bottom, the plants may stretch upward as much as 200 feet. Like tree trunks, the densely packed pillars of kelp may be as thick as a man's body. At the surface, their foliage covers the sea like a floating carpet.

Scenic?

Sure, but the dimly lit interior of the kelp forest holds more than cathedrallike vistas. It's thickly populated. More than 750 kinds of critters—most of them fish—thrive in these underwater groves. There are rockfish, perch, cabazone and lingcod, not to mention mollusks and crustaceans—abalone and lobster, for example.

Gower's not blind to beauty, but it wasn't aesthetics that drew him to these deeps. It was appetite.

"I started diving in 1958," he says, "when I was a senior in high school here in San Jose. My buddies and I would pile into my 9-year-old Kaiser and head for the beach. We'd usually go to Santa Cruz or Monterey. The beaches there are only about 20 miles away from San Jose.

"And they had what we first went in for—abalone. Actually, I didn't start taking game until my third or fourth time in the water. But my parents were quite happy when I started bringing home lingcod, clams, abalone and lobster. We all loved seafood, and I still do, especially when I take it myself."

Gower, 40, has scuba dived all over the world. But he prefers the West coast.

"Our plant and fish life is so much more abundant than in the tropics," he says. "True, we don't have all the little colorful tropical fish, but we have a lot more varieties of larger fish. And we have one thing you don't find in warm tropic waters—the giant kelp forests. In some places, they stretch for miles and miles.

"Less than half of our Pacific coast is sand beach. Most of it is rocky. About 90 percent when you get up into Oregon. And you'll find kelp beds all the way down to Baja California. The kelp beds are where everything goes to spawn."

But there's more to his hobby than just great cuisine.

"Diving," he says, "is a superrelaxing sport. Mentally, it's a real challenge. You're in a different environment, and your mental focus on what you're doing is intense. You can have the weight of the world on your shoulders when you go in the water, but once you do, your problems vanish."

Pennekamp State Park in the Florida Keys is America's only underwater park—and a diver's paradise.

EONS AGO fish solved the problem of how to live and breathe underwater. Man, lacking gills, found the task tougher. For him, it wasn't solved satisfactorily until 1943.

That year, a French Navy captain, Jacques Yves Cousteau, introduced the Cousteau-Gagnan Aqua-Lung, a device using cylinders of compressed air with a regulator that automatically adjusts the pressure to the diver's needs.

At sea level, the atmosphere exerts on the human body a pressure of 14.7 pounds per square inch. For every foot the diver descends into the water, that pressure increases almost half a pound per square inch.

At 33 feet below the surface, the external pressure on a diver's body is double that at sea level. To offset it, the pressure of the air he breathes must be double, too. At 66 feet underwater, the pressure is triple that at sea level, and at 99 feet, four times as great.

Sound complicated? With his compressed air tank strapped to his back, the diver can merrily ignore those figures. His self-contained underwater breathing apparatus (SCUBA) equalizes the water pressure.

IF COUSTEAU'S APPARATUS made scuba diving possible, his book, *The Silent World*, did much to make it popular. After World War II, the sport caught on quickly worldwide.

In 1959, the Underwater Society of America was formed to represent water sports in the United States.

About 2.3 million Americans are active recreational divers, says John J. McAniff, director of the National Underwater Accident Data Center at the University of Rhode Island. Their number is increasing 100,000 to 125,000 a year, he says.

What do they spend on their hobby?

"Around $500 million a year," estimates Robert L. Gray, executive director of the Diving Equipment Manufacturers Association. "About half of that is for travel, the rest for equipment and training.

"A complete scuba outfit might run $1,600. That's for the works—mask, hood, regulator, wet suit, gloves, boots, fins, depth and pressure gauges, compass, backpack, buoyancy compensator and dive watch. But a lot of divers rent their gear."

Ed Ralston, 58, is the Oklahoma representative for Fulwell Motor Products Company. He is also executive vice president of the Underwater Society of America. At his home in Oklahoma City he has more than 300 scuba diving trophies.

"My wife just dearly hates 'em at housecleaning time," he says.

Ralston has done his share of saltwater scuba diving, but he doesn't need a kelp forest or a coral reef to enjoy the hobby.

"I was a member of the national spearfishing championship team three years in a row," he says, "1964 through 1966. The contests follow the rules of the Underwater Society, but they're hosted by local councils. So most of them have been held in fresh water."

Ralston has picked up trophies at Tenkiller Lake in Oklahoma, Lake McConaughy in Nebraska and Table Rock Lake in the Little Shepherd of the Hills country in Missouri.

"On the East and West coasts," he says, "most divers are skinners. So it's hard to find a council to sponsor a scuba event. They don't have as many scuba divers as we have in the middle of the country. It's not much fun to skindive here, since the water isn't clear.

"To stay down for a while and see that underwater world, you need scuba equipment."

Spearfishing is not only a challenging sport he enjoys but also a boon to what he calls line fishermen.

"In freshwater lakes," Ralston explains, "we take only rough fish like carp, buffalo, drum, shad or gar—not game fish. I've seen gar gulp down the roe of bass by the thousands, and carp can take over a lake and crowd out game fish, as they did at Lake McConaughy. We held our spearfishing championship there in 1965 and took out tons of carp. After that, the game wardens welcomed us."

When he's spearfishing—he went to 36 tournaments one year—Ralston serves as his own bait.

"You find a place to park yourself, where the fish have to come to you from the front. Then you use your breathing to attract them. If you hold your breath, then let it out all at once, you make a booming noise underwater. You have to breathe rhythmically, never changing pitch or tone—then they'll come to look at you. We head for murky water. Visibility of 2 or maybe 3 feet is perfect. The fish, being curious, has to come closer. So you have a lot better chance of getting him.

"But you have to be quick. There's no aiming underwater. You just point your spear gun and fire, as in the old days out West with a six-shooter."

SLIP ON a diver's mask, swim fins, a tank of air and drop into the water by a coral reef. Just a few feet below the surface you discover a colorful, wet world that a landlubber would never dream existed.

It's full of fellow swimmers.

Swimming along with you in the crystal-clear water there's yellow jack, pink and pea-green surf parrots, neon gobies, blue-striped grunt, black angelfish. Growing on the reef are red sponges, lettuce coral, feather-duster worms—an almost infinite variety of creatures bizarre and beautiful.

That's a world Paula M. Novotny loves. It's not a dangerous realm.

"Except for some sharks, none of the creatures of the sea are really aggressive," says Novotny, 32. "I've been diving for five years and I've never encountered one."

Novotny, an art instructor and owner of Dive Art, which makes T-shirts, stationery and greeting cards with diving motifs, learned to scuba dive in Hawaii.

"My sister and I were on vacation at the Kona Surf Hotel on the big island of Hawaii. We took a quickie course and then went out on a trimaran to a reef a few miles offshore.

"The minute I went below the surface I was hooked. I just loved the world I saw. Its beauty amazed me. When I got back to Indianapolis, I decided to learn all I could about diving. I took master diver lessons from a local dive shop, then got my instructor's license from the Professional Association of Diving Instructors."

Where are her favorite places to dive?

"The Red Sea and Australia's Great Barrier Reef are fantastic, but my favorites are Grand Cayman and Bonaire in the Caribbean. I don't like to dive deep; you use up your air too quickly. I like to stay down a couple of hours at about 30 feet. You can do that at both places."

But doesn't sight-seeing pall after a while?

"No," Novotny says. "Besides, there are lots of other things to do. Like interacting with those sea creatures. At Grand Cayman, there's Waldo, a magnificent 7-foot green moray eel. It's fun to take bait fish down and feed him. Hollywood makes moray eels out to be dangerous aggressors, but that's a bunch of celluloid.

"And now I'm into underwater photography. When you take pictures, you're bringing back memories, too.

"Remember that 70 percent of our planet is water—we call it planet Earth, but it's mostly water. That's where it's at, for me. I think of it as planet Water. To me, it's synonymous with life.

"Water is inner space. I like to explore it." □

PHOTO: PAUL ARMIGER—WOODFIN CAMP

A diver finds the going cumbersome on land, but underwater he's like a fish.

The Roots of the Flat-Rate Tax Movement

IS THE FLAT-RATE income tax a powerful idea whose time is near? Or is it a naive wish that the tax system of a massively complex economic giant can be reduced to a single, simple calculation?

Those are two of the key questions that will be addressed when the national debate over a flat-rate tax gets under way this fall. (For details, see page 22.)

At that time, the many ramifications of this plan will begin to receive a much closer look than they have had over the years that tax reformers have been pressing the idea.

Business will participate in that analysis, reserving judgment until the debate becomes more focused. There are so many variations among the plans being offered that serious consideration cannot begin until there is at least a consensus on broad outlines.

But it is highly relevant now to consider the forces that have brought the flat-rate tax plan to its present state of visibility in Washington.

The tax collector, of course, has been one of the least popular figures throughout history. Rarely, however, has any country fashioned a tax system so universally disliked as that operating in the United States.

From the lowest to the highest brackets, taxpayers are convinced that the system discriminates against them in favor of the others.

Lower-income workers, including those who pay little or no federal income tax, are bitter over what they see as loopholes that enable the rich to escape taxation. Upper-bracket individuals, forced to turn over half of their incomes to the federal tax collector (the maximum was 70 percent until last year), resent what they see as massive use of their money for social programs of little proven merit. The middle class complains that it lacks access to either tax shelters or social programs.

Other important considerations enter into Americans' perception of their tax collection system. Amendment upon amendment to the tax laws has spawned a deluge of paper work and substantial record-keeping requirements for individuals and businesses. Some of this paper work is necessary to provide taxpayers with opportunities to lower their tax obligations through exemptions, deductions and other exclusions from income.

But business people dealing with both individual and commercial tax forms generally see themselves trapped in a maze that's impossible for the average person to understand. The cost of paying the taxes themselves is then compounded by the expense of hiring lawyers, accountants and other technicians as guides through the tax-form jungle.

There is, finally, the element of taxpayer concern that the tax code contains unseen pitfalls that could make them unwitting violators of the law.

A study by Citizen's Choice, a grass-roots organization affiliated with the U.S. Chamber of Commerce, found that the most common reaction of individual citizens to the tax collection agency is fear—based on "the almost unbelievable complexity of modern tax laws."

A thorough congressional review of the concept of the flat-rate tax is most welcome. In making that analysis, however, Congress should remember that the growing support for the flat-rate tax has its roots in deep disillusionment with the current system and is not just a movement seeking easy answers to difficult problems.

Supporters of the flat-rate plan say it offers fairness and simplicity. Whatever the final decision on that specific approach, Congress owes it to the American public to devise a tax system that meets those two criteria. □

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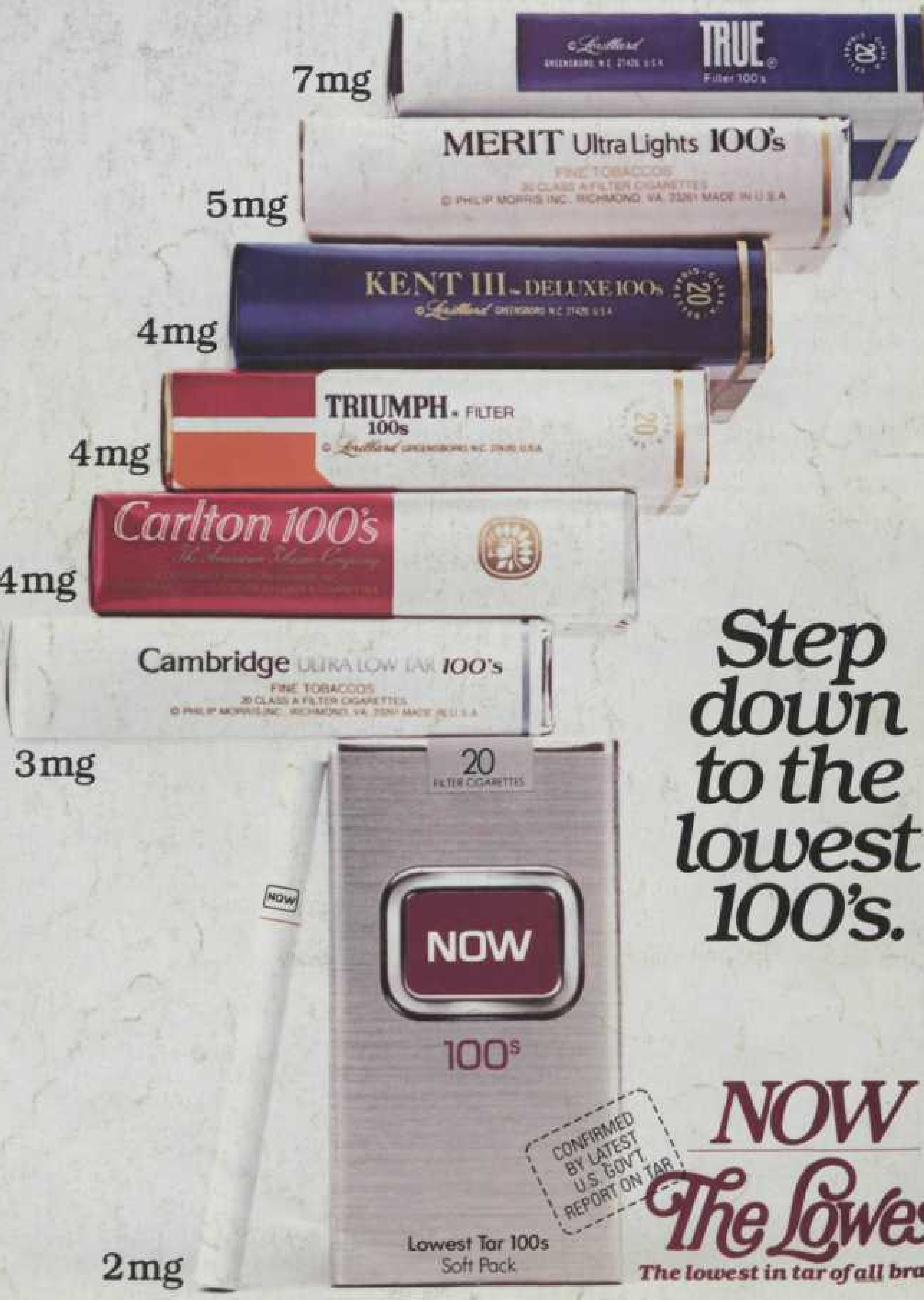

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